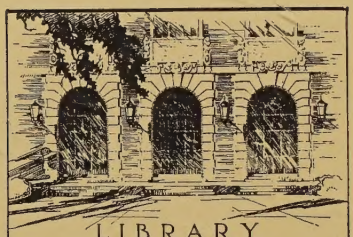

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FOREWORD

No matter what theory—be it individualistic or socialistic—may now or hereafter underlie our political thinking, scientific budgetary procedure will always be a matter of prime importance. Government is defensible only as an organization for action in the common interest—as a means for doing those things for the common good which it is conceived may be better done collectively than individually.

But governments do not furnish their own motive power. They always have and they always will produce results only through the application of human effort which would otherwise be exerted to satisfy individual wants. This is equally true whether the government attains its ends by the expenditure of money derived from taxes or by commandeering the labor of citizens as is sometimes done in rural communities for the construction and repair of roads. Taxes represent individual effort applied to community tasks as truly as does the labor of citizens directly enforced.

The budget provides a means through which citizens may assure themselves that their effort which has been diverted to community ends is not used for private gain, is not misused nor frittered away, but is applied to the accomplishment of those purposes which the community approves and is made to produce the maximum of results for the effort expended. Thus viewed the budget is something more than a method of checking or reducing the tax rate, more than any scheme of accountants and efficiency experts. Above and beyond its relation to economy and efficiency in public affairs it may be made one of the most potent instruments of democracy. Given at least manhood suffrage, any government so organized as to produce and carry out a scientific budget system will be susceptible of extensive and intelligent popular control. On the contrary those governments, whatever their other virtues, which fail to provide adequate budget methods will neither reach the maximum of efficiency nor prove to be altogether responsible to the people.

A new spirit in American politics is manifesting itself in the

powerful movement for the reform of governmental organization and procedure in the interest of popular control and efficiency. There are naturally many features in the program for the accomplishment of this twofold object. No single change would add so largely to both democracy and efficiency as the introduction of proper budget methods. The papers in this volume are published in the hope that they may contribute in some degree to the progress of this fundamental reform.

AUGUSTUS R. HATTON,
Editor in Charge of the Volume.

Western Reserve University.

BUDGET MAKING AND THE WORK OF GOVERNMENT

By Henry Jones Ford,
Professor of Politics, Princeton University.

When one consults the writings of the framers of the Constitution there appears to be singularly little on budget making, although it was perceived clearly enough that it involves the whole character of constitutional government. Nothing could be more emphatic than the utterances in *The Federalist* as to the power of the purse. And yet this full recognition of its importance does not seem to have been accompanied by any solicitude as to procedure. Apparently that was regarded as a matter which would take care of itself. All that the Constitution has to say about procedure is that "no money shall be drawn from the treasury but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." Mention of the subject could hardly have been more vague than that. It seems to have been assumed as a matter of course that the administration would formulate proposals as to ways and means for the consideration of Congress. There is much about taxation in *The Federalist* but it is concerned with showing that there was no occasion for fear lest it should be unfair or burdensome. In No. 36, which is a detailed statement of the possible scope of internal taxation, Hamilton incidentally remarks:

> Nations in general, even under governments of the more popular kind, usually commit the administration of their finances to single men or to boards composed of a few individuals, who digest and prepare in the first instance the plans of taxation which are afterwards passed into laws by the authority of the sovereign or legislature.

This observation occurs in a manner that makes it the more significant. He is refuting an objection to the effect that a power of internal taxation could not be exercised with advantage by the national government from want of a sufficient knowledge of local circumstances. An obvious answer might have been to say that the taxes would be laid by the representatives of the people who would naturally have knowledge of local circumstances. But

forthwith he proceeds to admit that in practice the plans would be digested and prepared in advance for the consideration of the legislature, and then he points out that those charged with the duty would doubtless avail themselves of the information possessed by representatives from various localities. He argues that this will suffice to keep those administering the finances duly informed of local conditions, and he then dismisses the point with this appeal to precedent:

> Inquisitive and enlightened statesmen are deemed everywhere best qualified to make a judicious selection of the objects proper for revenue; which is a clear indication, as far as the sense of mankind can have weight in the question, of the species of knowledge of local circumstances, requisite to the purposes of taxation.

There can be no doubt that English budget practice was in mind and that it was assumed to be the normal practice, to which American usage would naturally conform without express provision to that effect. No other supposition was likely to occur to the framers of the Constitution. English parliamentary procedure had remained without change since the reign of Charles II and it presented all the appearance of being the settled form that constitutional government would naturally assume wherever established. As a matter of fact parliamentary procedure in England remained without substantial change until the middle of the nineteenth century, but in the United States radical divergence began soon after the national government got under way. Certain features of the Constitution adopted without intending to alter its nature soon effected a profound alteration of type, and tendencies were developed that were in no wise anticipated. The consequences are particularly marked in budget making which in no respect now corresponds to the intentions and expectations of the framers of the constitution.

It is clear from the debates of the constitutional convention and from the explanations of *The Federalist* that the framers anticipated for the House of Representatives a position of authority similar to that of the House of Commons. The risk to be guarded against was then thought to be too great stringency of control by the House tending to starve the government through inadequate appropriations. In *The Federalist* it is argued that the greatest circumspection and propriety of behavior would have to be displayed by the Senate to enable it to maintain its constitutional

position in its relations with the House. Hence it was deemed desirable to fortify the Senate by giving it the express right to propose amendments to revenue bills. The compromises made to conciliate the smaller states tended to aggrandize the Senate in which the states had equal representation, and to this circumstance rather than to the intentions of the federal leaders are due some provisions that have deeply affected the character of the government and have shaped budget procedure in ways that no one foresaw. The subordination of appointments to the approval of the Senate was a feature not contained in the original draft and it entered the Constitution as part of the compromises. This feature of the Constitution has exerted a powerful influence in destroying the proper function of the House of Representatives as an organ of control and making it a scuffle of local agency. The great concentration of authority in the Senate alienated Mason of Virginia who declined to sign the report of the convention, and it was the subject of adverse comment in some of the state conventions when the adoption of the Constitution was pending, but nowhere was there due appreciation of the consequences. It is explained in *The Federalist* that the advisory function of the Senate cannot involve any actual exertion of choice.

Thus while the framers of the Constitution intended to perpetuate the type of government with which they had been familiarized by English history, they admitted changes whose effect was to produce a radical divergence and to initiate organic changes that have yet to run their course. Procedure regarded by the founders of the government as so stereotyped by tradition and precedent as to require no special provision has been abandoned, and its place is taken by makeshift arrangements which exhibit no settled plan or constitutional design, and which change their shape from time to time in accordance with Hamilton's maxim that "the public business must in some way or other, go forward." As every constitutional system centers in the management of the public finances, budget conditions all through our history have been a reflex of the conditions under which the work of the government is carried on. The relation is constant and is plainly discernible when actual practice is considered.

The Constitution makes no particular mention of budget estimates. Administrative function in connection therewith was

included in the duty of the President to "give to the Congress information on the state of the Union, and recommend to their consideration such measures as he shall judge necessary and expedient." There is nothing as to the form in which he shall present his measures or the mode by which he will get them before Congress. It was assumed that the administration would possess the customary initiative existing under the English system. At the outset events followed the traditional course, the various enactments by which the organization of the government was completed being prepared for Congress by the federal leaders. Hamilton was busily occupied in drafting the regulations for the treasury department and digesting his financial plans before his appointment as Secretary of the Treasury. Examination of the details of his arrangements shows that he was influenced throughout by English precedents. Congress also conformed to English precedents. The House of Representatives resolved itself into a Committee of the Whole on Ways and Means in considering revenue measures just as in England. There were no standing committees to intervene between the recommendations of the administration and the action of the House. Any matter on which the House desired information, whether a claim, a petition or a memorial, would be referred directly to the head of the proper department, and reports from the heads of departments supplied the subjects of legislation. The House exercised its functions of criticism and control through the Committee of the Whole. When the sense of the House was ascertained, a select committee would be appointed to prepare the bill, which usually meant that the select committee's work would be done for it by the department interested in procuring the legislation. The original budget procedure is plainly indicated by this record upon the House journal for January 10, 1794:

> The House went into Committee of the Whole on the statements and estimates of appropriations for the current year. Resolved, on certain appropriations, and moved that a committee should be appointed to prepare and bring in a bill for that purpose.

The resemblance to English procedure is plain and it should be added that the cabinet officials assumed direct relations with Congress after the manner of an English ministry. In the beginning all the branches of the government were bunched together in their quarters so that intercourse was ready and easy without formal

arrangements, and the brief notices of the direct presence of cabinet officials appearing in the records give an inadequate notion of the real extent of the intimacy. It was by direct, personal administrative initiative that the government was set in operation. Only by such agency could the finances have received the radical treatment by which Hamilton almost at a stroke lifted the nation out of bankruptcy, established its credit and secured its revenues. His plans were marked by a boldness of conception and an unity of design that would stamp them unmistakably as an individual product even if there were not abundant direct evidence of that fact. They surpassed popular comprehension and affronted popular prejudice to an extent that would have made them impracticable in an assembly without other means of action than its own varied impulses. It was because he was in a position to formulate his measures in their entirety and to press them directly upon Congress, unhindered by any committee system with its parcelling of influence, that he was able to carry his measures. Indeed, even then his success was made possible only by adroit management in which he utilized the controversy over the site of the national capital to secure the necessary votes. His personal initiative transcended even the function of an English Chancellor of the Exchequer on which it was distinctly modelled, for he had no compact party following on which he could depend. It is rather comparable to the parliamentary diplomacy of the German Imperial Chancellor, working with discordant factions and piecing together a combination of the requisite strength.

The system broke down as soon as the government became firmly established and new party divisions began to take place. Then the actual divergence of the American system from its English prototype was revealed. There is nothing to indicate that, by the provision prohibiting officeholders from serving as members of Congress, the framers of the Constitution had any idea of striking down the English system of government. The clause adopted a reform that had been much agitated in England and it is commended in *The Federalist* as a safeguard to the independence of Congress. It was not perceived that it would interfere with administrative initiative, nor does it necessarily do so. The Swiss constitution makes a similar provision and administrative initiative is in no wise impaired thereby, but mindful of American experience the framers

of the Swiss constitution conferred upon the cabinet officials the express right of appearing before the Congress with their proposals. This provision has profoundly differentiated the Swiss system from the American system notwithstanding a close resemblance in the general constitutional scheme. By virtue of it, the Swiss administration has developed as the agency by which all legislation is planned and drafted, even the amendments voted by the Congress being entrusted to the care of the administration for incorporation in the text of the bill. By a natural extension of the procedure it has become the practice to publish in advance of the meeting of Congress the text of the government measures that will be proposed for its consideration. The practical effect of the administrative initiative has been to give such precision and definiteness to legislative procedure that the Swiss Congress is able to transact the business of a session in a few weeks. Meanwhile there is never any anxiety as to the possibilities of its action as the system thoroughly matures all measures and apprises the public of their exact nature before enactment. But the dependence of the Constitution of the United States on mere tradition and custom as to the mode of administrative recommendation gave an opening to party violence, the consequences of which were soon experienced and have gone on ever since with steadily increasing volume.

An English parliamentary faction, however bitter against a cabinet official, has no way of silencing him. He is a member of the House and has a right to the floor which cannot be denied him. He can confront his enemies, and they cannot avoid the risk that he may confute their arguments and repel their calumnies to their own discomfiture. The constitutional right to the floor of Congress vested in the Swiss heads of administration gives them a like protection. But the constitutional right and duty of the President of the United States to recommend to Congress "such measures as he shall judge necessary and expedient" is neither defined nor protected. Actual procedure has varied from time to time and is still unsettled, but whatever the method that is actually employed, budget making is powerfully affected by it.

Although Hamilton's opponents were never able to defeat him openly, they were able to shut him off from direct access to Congress and terminate the direct initiative originally possessed by the administration; but this was done at the expense of the control

exercised by the House through the Committee of the Whole. To this day there is no Committee of Ways and Means or of Appropriations in the English House of Commons except the whole house sitting in Committee of the Whole to consider taxes and supplies. Our House of Representatives started with the same system but on December 16, 1796, it was resolved that a Committee on Ways and Means should be appointed and on January 7, 1802, it was established as a permanent standing committee. At that time there were only five standing committees but the parcelling of legislative initiative among committees once begun the process went on rapidly and motions to increase the number were made at every session. The effect in impairing the collective weight and dignity of the House was soon manifested. In 1797 Fisher Ames, a Federalist member of Congress, wrote to Hamilton:

> The heads of departments are chief clerks. Instead of being the ministry, the organs of the executive power, and imparting a kind of momentum to the operation of the laws, they are precluded even from communicating with the House by reports. In other countries they may speak as well as act. We allow them to do neither . . . . The efficiency of government is reduced to a minimum . . . . Committees already are the ministers, and while the House indulges a jealousy of encroachment in its functions, which are properly deliberative, it does not perceive that these are impaired and nullified by the monopoly as well as the perversion of information by these committees.

Similar testimony is given by Justice Story. He was a political adherent of Jefferson who in 1811 appointed him an associate justice of the supreme court. His Commentaries were published in 1833, and he was speaking from personal knowledge of conditions in Washington when he wrote:

> The heads of departments are, in fact, thus precluded from proposing or vindicating their own measures in the face of the nation in the course of debate, and are compelled to submit them to other men who are either imperfectly acquainted with the measures or are indifferent to their success or failure. Thus that open and public responsibility for measures which properly belongs to the executive in all governments, and especially in a republican government, as its greatest security and strength, is completely done away. The executive is compelled to resort to secret and unseen influences, to private interviews, and private arrangements to accomplish its own appropriate purposes, instead of proposing and sustaining its own duties and measures by a bold and manly appeal to the nation in the face of its representatives.

Story's characterization of the actual government as one of "secret and unseen influences" well describes the system that took

shape during Jefferson's administration. He broke with the practice of direct oral communication between the executive and Congress which Washington's administration had taken over from the English system and substituted a written message. He based his relations with Congress upon the standing committee system. It became party usage to allow the administration to pick the chairmen of important committees, which practically meant that the legislative proposals of the administration instead of going openly into Congress by the front door slipped in secretly by committee backstairs out of the public view. The system avoided administrative responsibility. As Story pointed out, "one consequence of this state of things is that there never can be traced home to the executive any responsibility for the measures which are planned and carried at its suggestion." Nor could responsibility be justly imputed to the executive since it was not free to determine the form and character of the measures promoted, that being a matter which had to be arrived at by arrangement with the House committees in which concessions naturally had to be made as in all diplomatic negotiation. This system of directing legislation by private arrangement between the administration and the standing committees lasted until John Quincy Adams' administration when it broke down completely. Senator Benton of Missouri, although himself a participant in the Jackson movement that caused this rupture, made an observation upon it which shows that the original tradition of administrative initiative still survived. In his *Thirty Years View* he remarked:

> The appointment of the majority of the members in all committees, and their chairmen, in both Houses, adverse to the administration, was a regular consequence of the inflamed state of parties, although the proper conducting of the public business would demand for the administration the chairmen of several important committees as enabling it to place its measures fairly before the House.

With this breakdown disappeared from our system all recognition of the legislative initiative of the President as President. Administrative experience is so naturally and inevitably the source of legislative initiative that it cannot in practice be separated from the executive office, but ever since the Jacksonian period it does not inhere in the office but attaches to it through the development of party machinery peculiar to the United States. Nominating conventions, party platforms and all the complex machinery of party discipline and management have been evolved to fill the gap between

the executive and the legislature. The President possesses an actual initiative of masterful authority but he derives it from his position as head of his party and its national leader, and he exercises it through party agency. The connecting link between the executive and Congress is the party caucus.

As the President has no access to Congress for his measures save by the favor of his party associates, it is incumbent upon the party managers to keep their followers in an acquiescent temper. The system of indulgence thus introduced has caused the monstrous development of the pay and perquisites of Congress that makes it by far the most expensive assembly the world has ever known. To the same general cause is due the conversion of Congress into a legislative mill, tens of thousands of proposals being made every session whereas in the British parliament, with the affairs of an empire to control, the number of bills introduced during a session never exceeds a few hundred, and in recent sessions amounts to much less than a hundred. As part of the same train of consequences buncombe speechmaking is substituted for deliberation, the distribution of time for debate being treated as an individual perquisite to be utilized in any way the favored member may choose, irrespective of the subject nominally before the House. An incidental effect is to convert the Congressional Record into an electioneering dump. Executive appointments to office are included among Congressional perquisites and the ability of the President to obtain consideration of the public business is so strictly conditioned upon his surrender of the appointing power that the practice has been systematized and it is regarded as a violation of senatorial prerogative to make an appointment in a state save at the instance of the Senators from that state. This extension of the concurring power of the Senate, coupled with the Senate's ability to make any changes in revenue and appropriation bills it sees fit, has reduced the House to a position of really abject inferiority. There could be no greater contrast than that which exists between its present position and that anticipated for it in *The Federalist*. The constitutional position of the House as an organ of control over the government in behalf of the people has been altogether destroyed. There are numerous committees on expenditures in the various departments of the government provided by the rules of the House but in practice they are merely a part of the Congressional patronage fund, and

exercise no real control or supervision. Their futility in these respects was strikingly revealed in consequence of the Acts of 1870 and 1874, passed through the insistence of Mr. Dawes and Mr. Garfield, requiring all unused appropriations to be covered back into the treasury. It then appeared that unexpended balances had accumulated in the departments to the aggregate amount of $174,000,000, and in a single bureau there was an unexpended balance of $36,000,000, the accumulation of a quarter of a century.[1] The conversion of the House from an organ of control into a concourse of particular agency has caused its part in the government to become more and more that of an instrument for registering party determinations of policy arrived at outside of the House. The deliberative functions of Congress now hardly survive except in the Senate.

All these consequences, which affect every part of the government, are experienced with convergent force in budget procedure. Something in the nature of system existed for many years through the concentration of taxation in the hands of the Committee on Ways and Means. For the first forty years of the government all the appropriations were made in one bill. In 1865 revenue and expenditure were disconnected by the creation of the Committee on Appropriations. In 1880 the Agricultural appropriation bill was turned over to a standing committee. The River and Harbor bill was reported independently of the Committee on Appropriations for many years before 1883 when a standing Committee on Rivers and Harbors was authorized with the power of reporting appropriations of that class. In 1885 special exigencies of party management caused changes that destroyed the last vestiges of budget system. Mr. Randall, who was then chairman of the Committee on Appropriations, was opposed to the tariff policy of the administration. To break down his influence with members, the rules were amended so as to distribute seven of the regular appropriation bills among separate committees. There are now fourteen regular appropriation bills distributed among eight different committees of the House. Seven of these committees have jurisdiction over but one appropriation bill, the other bills remaining in the custody of the Committee

[1] Instructive details are contained in an address by Theodore E. Burton, delivered in the House, March 15, 1904.

on Appropriations. The consequence of the distribution was thus described by Chairman Tawney in 1909:

> Each of those committees which has jurisdiction of but one appropriation bill naturally becomes the partisan representative of the department for which it recommends appropriations rather than the representative of the body to which its members belong. . . . . When the jurisdiction of the Committee on Appropriations was thus divided, Mr. Randall and Mr. Cannon, then members of that committee, predicted that this division of jurisdiction would cost the people of the United States not less than $50,000,000 annually. They were not far out of the way, as our experience has proven.

The collapse of all budget system in 1885 had a curious result in developing a method of control that to some extent counteracted congressional incapacity. But the new control was not constitutional but was absolutist. It was maintained through an autocratic power exercised by the Speaker with undisguised baldness. The process was simplicity itself. If he did not wish a bill to be passed he would not recognize any one to move its consideration. It became a regular practice for members to visit the Speaker to explain the purpose for which they desired recognition and get his consent. In addition, through a small Committee on Rules of which he was a member with such colleagues as he chose to appoint, he virtually controlled the time of the House. The Committee on Rules always had the right of way, and at any time it could bring in a special order fixing the time at which any matter should be taken up by the House and also the period to be allotted to its consideration; and nothing else could be considered until action had been taken on the report of the committee. A necessary incident of the method was the handling of patronage and appropriations to maintain party discipline, so the method involved increasing pressure upon the appropriation bills. But when the extravagance reached lengths that might make trouble for the party in the elections, the autocratic power of the Speaker could be exercised to reduce the aggregate by holding up appropriation bills. The bills usually attacked for this purpose were what are known in congressional slang as the pork barrels Public Buildings and Rivers and Harbors. The distribution of district "pork" would be made as usual but when the bill was ready for passage the Speaker would not allow it to be considered, even although petitioned by a majority of the House. The application of party discipline to keep members quiescent under this arbitrary rule was facilitated by the fact that

the privation was general and a member could explain to his district that although he had not been able to land local appropriations no one else had had any better success. The following item from the *Pittsburg Dispatch* of January 24, 1897, illustrates this curious situation which is probably without a parallel in constitutional history:

> Congressman Ernest F. Acheson was in Pittsburg yesterday. He said he had been forced to agree with Speaker Reed in refusing to give a place to the Omnibus bill, providing appropriations for seventy public buildings, three of which were to be located in Wilkesbarre, Altoona, and his own town of Washington. Speaker Reed showed that the deficit for the month current was already $8,107,118, and for the fiscal year $46,009,514. And thus it was he refused to grant a petition signed by 308 members of the House.

The development of this autocratic power, which was not the work of any on Sepeaker and which went on no matter which party was ascendant, tended to displace the initiative which the President exercised as a party leader. There was a period when the chief seat of authority in the administration was not the presidential office but was a group of undertakers embracing the Speaker and some leading chairmen of committees in both Houses. During this period an extraordinarily naked display of the way in which the appropriations may be used to dictate public policy was made in the House. There was a strong sentiment adverse to the policy which the oligarchy was pursuing in respect of currency legislation but a committee chairman quelled revolt by the blunt announcement:

"I have the report on the Public Buildings bill in my pocket. I am going to keep it there until a satisfactory currency bill is passed."[2]

This rule of oligarchy was quite dependent upon advantages of position and it excited such antagonism that it was suddenly overthrown by the parliamentary revolution of March 19, 1910. A schism in the party to which the Speaker belonged carried over to the opposition votes enough to defeat him on a point of order. This victory was followed up by the passage of a resolution increasing the membership of the Committee on Rules from five to ten members, no longer to be appointed by the Speaker but elected by the House, and it was expressly provided that the Speaker should not even be a member. This exclusion of the Speaker from his old post of managing director of the House has been since confirmed by

[2] Congressional Record, May 30, 1908, pp. 7629, 7690 *et seq.*

further changes in the rules. Nominally the House now elects all the committees, but by a rule adopted in the Democratic caucus, January 19, 1911, the actual selection is vested in the Committee on Ways and Means. The practical effect is to make the chairman of that committee the leader of the House and to make the caucus the seat of party direction and management. The Committee on Rules now acts under caucus direction in reporting the special orders under which important legislative business is necessarily transacted. It has been calculated that it would take over sixty years to consider in regular order the bills poured into Congress at every session.[3]

These changes have invigorated the initiative attaching to the office of the President as the national leader of his party, but he has effective access to the House for his measures only through the party caucus. The task devolving on the party management of keeping the caucus in an acquiescent temper has tended to expand Congressional perquisites and to increase the pressure on the appropriations. In this respect the situation is now worse than in the days of the autocratic rule of the Speaker. It has become a matter of acute anxiety with members who feel their national responsibility. The present chairman of the Appropriations Committee has repeatedly urged without success that the House should return to the former system of control through the concentration of the appropriations in the hands of a single committee.[4] In a speech delivered in the House, February 6, 1915, he suggested more radical treatment. He said:

> When the burdens finally become so great as to be intolerable then the nevitable rising will take place. One thing that is essential to accomplish in this body—and it will be done some day—is to deprive the individual member of Congress of the right to initiate expenditures.

The present situation, with its entire lack of budget system, is admitted by thoughtful Congressmen to be indefensible and some reform is becoming practically inevitable. The beginning of a new system was incited by section 7, of the Sundry Civil Appropriation bill of March 4, 1909, putting upon the President the duty of revising the department estimates so as to coördinate them with the

[3] Congressional Record, Vol. 43, No. 17, Jan. 7, 1909, p. 611 *et seq.*

[4] A comprehensive account of committee conditions is given in the speech of Chairman Fitzgerald, June 24, 1913. Congressional Record, vol. 50, part 3, 63d Congress, first session, p. 2154 *et seq.*

revenues. Under President Taft's administration an executive commission made a thorough study of the subject with a view of devising an exact and comprehensive form of budget statement, but a spirit of antagonism developed in Congress and a clause was inserted in an appropriation bill prohibiting any change in the form in which the estimates are transmitted to Congress. Nevertheless, forms were devised that will be of service whenever Congress moves in the matter. But such is the relation between budget making and the work of government that no change will be sufficient that does not give the administration access to the House as a matter of right and not of favor. So long as the administration is dependent upon any sort of mediation in presenting its budget estimates and legislative proposals to the consideration of Congress, sound and economical management of the public finances is unattainable.

EVOLUTION OF THE BUDGET IDEA IN THE UNITED STATES

By Frederick A. Cleveland,
Director, Bureau of Municipal Research, New York City.

Difficulty in tracing the evolution of the "budget idea" in the United States lies not so much in the historical material to be mastered as in decision as to what "idea" is to be discussed.

What is the "Budget Idea"?

Most controversies grow out of the failure of parties contestant to make clear what they are talking about. Words in ordinary use make expression of thought difficult whenever exactness is required. It is for this reason that science has gone entirely outside the common language for its terms. The word "budget" is a term used in so many different ways that no one can write on any aspect of budgets or budget practice without risk of controversy about the facts until he has taken the trouble to tell what he conceives a budget to be. Writers, therefore, not infrequently begin with a definition. It is an interesting fact, however, that nearly all these definitions are so indefinite that the reader is still left in doubt.

Definition of Budget as Herein Used

In this essay the term "budget," is used to mean *a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive to a representative body (or other duly constituted agent) whose approval and authorization are necessary before the plan may be executed.*

In order that no room may be left for inference, each of these clauses may be enlarged on and the reason given for its use:

(1) The idea "budget" is classed as a "plan" instead of a "document" or a "statement" for the reason that it is in the nature of a definite proposal calling for approval or disapproval with such details and specifications attached as are thought to be useful to the approving body or agents in arriving at a decision.

(2) It is differentiated from other plans by the phrase "for

financing an enterprise or government during a definite period." This includes the first idea of Leroy-Beaulieu's definition. But if it stopped here it would be just as defective; anyone might make a plan for financing an enterprise or a government. For this reason it is further differentiated by the requirement that to be a budget it must be "prepared and submitted by a responsible executive."

(3) One other essential is added, *viz.*, that it must be submitted to "a representative body (or other duly constituted agent) whose approval and authorization are necessary before the plan may be executed." Each of these qualifying phrases is so full of meaning and each so necessary to a budget practice that it is deserving of further comment.

The Budget as a Plan of Financing

The one thing that has been conspicuously lacking in our governmental business, federal, state and municipal, has been the element of careful, understandable, responsible planning. The lack of careful, understandable, responsible planning has been an incident of "invisible" or "irresponsible" government. Each year in every jurisdiction we have had "estimates" both of revenues and expenditures. But "estimates" in themselves do not constitute a budget. They only serve the purpose of laying the foundation for work plans and financial plans.

These estimates must be of two kinds, *viz:* (1) there must be estimates of needs, and (2) there must be estimates of the financial resources that may be availed of to meet needs. To be of value the estimates must be made by a great many persons. The estimate of needs must be made by persons who are familiar with the requirements of each kind of work to be done, or each service to be rendered—with the operating requirements, the maintenance requirements, the capital requirements. Then one or more persons must make up estimates of needs for certain things that are common to all services—those which are general, such as requirements for interest, sinking fund requirements, the requirements for payment of maturing obligations for which no sinking funds are provided, requirements for purchase of common lands and the conduct of common business transactions such as advertising, printing, etc. Then again, estimates of the financial resources which may be availed of to meet estimated financial needs, to be of the highest value, must be made

up by a number of other persons who are familiar with present financial conditions; they must also be able to forecast probable revenues derivable under existing law; they must have knowledge of the present and probable future condition of appropriations and funds, having in mind present and proposed financial policies they must have the ability to forecast probable financial conditions of surplus and deficit at the beginning of the period to be financed and of probable surplus and deficit at the end.

Plan Must Be Made by a Responsible Executive

All these various estimates of expenditures, of revenues, and of financial condition must be brought together; they must be considered by someone who can think in terms of the institution as a whole; they must be brought to a conclusion; and conclusions must be stated as a definite proposal and a basis for action by some one person or agency that can be held to account. The only person who can be held to account is the one who is to execute the plan proposed. This executive therefore is the only one who can be made responsible for leadership.

The estimates and conclusions must be presented to the representatives of the people whose approval and action are required before spending officers are authorized to go ahead. They must be presented as a definite plan or prospectus which will show what is proposed to be undertaken. This plan must not only show what undertakings are proposed but what will be the probable cost on the one hand and how the cost is to be met. The financial plan must deal with great questions of public policy—must set forth how much is to be met by revenue, how much is to be met by borrowing, and how much, if any, is to be met from surplus. The plan must show what authorizations should be given to the executive to enable him to carry on the business efficiently and meet obligations as they mature. Not only is it necessary that the "estimates" be prepared by persons familiar with the facts, but it is quite as essential that the plan of work and of financing be proposed and submitted by the same person who is to be held accountable for directing the execution of the plan. This means the executive. To have a plan—in other words the "budget"—made by persons who have no responsibility for carrying on the business would be destructive of the very purpose of representative government.

The representative character of a government is to be found in its legislature and in its electorate. As has been pointed out, the constitutional or institutional purpose of a budget is to make the executive responsible and responsive to the people through their representatives and through the electorate. No plan or proposal can serve this purpose which comes from individual representatives any more than it could if it came from individual electors. In the first place it is incompatible that the proposer should also be the disposer of public funds. In the second place the proposal should not reflect the interests of a single individual or a single district—but the interests of the whole community of associated interests which are composed in the state or nation.

The one who submits the financial proposal should be responsible to all—he should be accountable for the management of the affairs of the whole government. Since the several parts of the government are interdependent, no legislative committee can prepare a budget unless the business of the government is to be managed by this committee as in a commission government, or in New York City where the executive power is in its Board of Estimate and Apportionment. But they must act together. Responsibility should be attached to some one man, or some group of persons acting as one man, who can be continued or retired as one man. It was for this reason that Great Britain did not succeed in establishing a true budget system till after 1800 when the principle of solidarity of responsibility was forced on the cabinet. Even then the budget could not be made effective until a means was provided for enforcing this responsibility through a truly representative parliament—until the reform acts of 1837 which made parliament in effect the people in session. In discussing the evolution of the budget idea in the United States, therefore, what is meant is the development of the idea of "a plan for financing the government during a definite period, which is prepared and submitted by a responsible executive to a representative body whose approval and authorization are necessary before the proposed plan may be executed."

Budget Control by the Representative Body

As it is the institutional and constitutional purpose of the budget to serve as a means both of exercising control over what the government shall do and how it shall be financed and also for making

the executive responsible and responsive to the people through their chosen representatives and through the electorate, the budget cannot be more than a proposal or request. Actual authorization must come from the representative or electorate body before a dollar can be raised or spent. Or if some latitude is given to the executive to spend without such action first obtained, the expenditures so made must come to representatives and the electorate for approval. A budget can have no force. A budget, as such, can convey no authority. It is only the "act" of appropriation, the revenue or the borrowing "measure" which gives authority to the executive. Therefore, the "act" and "enacted measure" must be clearly distinguished from the "plan" or "proposal" of the executive.

How Legislative Control May be Made Effective

If the executive is to be held responsible for results, the legislature must do *three things: viz.:* (1) It must provide a means of enabling representatives to find out whether the executive has acted within his past authorizations and conducted the business efficiently; (2) it must provide a means of enabling representatives to inquire into the requests for future grants; (3) since the purpose of a representative system is to make the government responsible and responsive to the people, it must provide a means of reaching the people, of letting the people know what has been done and what is proposed and of getting controversies between a majority of representatives and the executive before the electorate for final decision. With provision made for these three things the representative system is adapted to the ends and purposes of a democracy; without provision for these three things the representative system is not adapted to the ends and purposes of a democracy.

How Legislative Inquiry May be Made Effective

The collateral means which have been found effective for keeping the executive within authorizations are the creation of an agency for independent audit and report on all transactions, the establishment of an independent judiciary for the settlement of legal controversies, and the authority of the legislature to make independent inquiries. But these are collateral means. The method which has been found to be most effective for enabling representatives to inquire into requests for future grants, and obtain exact information

about what has been done as well as what is proposed, is to require the executive to appear personally before the representatives of the people at the time he makes his request for funds to answer questions and details.

How the Electorate May be Reached

The method which has been found to be most effective for keeping the people in touch with public affairs and for having questions in issue settled by the electorate, is to make provision whereby each representative can openly question the executive and every item can be separately debated and voted on. And in case the executive is not supported to make further provision, the electorate may promptly retire either the executive or the opposing majority. What this means is, that a budget which is to serve its constitutional purpose must not only be an executive proposal submitted to a representative body, but it must be submitted under such rules of procedure that each representative may have a right to personally and publicly make inquiry of the executive concerning any matter or detail of the business in hand and also have the right openly and publicly to oppose any part of the plan which, in his opinion, is against the general welfare of the state. And the only procedure which has been found effective for doing this is to require that the estimates and the budget be considered and discussed in committee of the whole house with the executive present.

Furthermore, the financial plan which is to be considered as a budget must be laid before representatives of the people, in such a way that it will at all times be the measure of the responsible executive, and when approved or disapproved, the action taken must stand as the decision of sovereign power—must be the will of the people to support this responsible head of the government. The budget must be considered as the most important measure of any government.

Action on the Budget an Act of Popular Sovereignty

The passing of a budget, as the term budget is used in this discussion, is an attribute of sovereignty. When, as in a democracy, sovereignty is in the people, the authority given to the executive by the "acts" passed in response to executive request must come directly or indirectly from the people; therefore, the procedure

to be effective must make the people an integral part of the action. This is what is meant by Leon Say in the statement that "Every member of the society or nation exercises a share of the prerogative of the budget which corresponds to the share of the sovereignty which is vested in him." It is on this idea of a budget that the theory that the "act" of appropriation and the revenue and borrowing "measures" are in the nature of contracts made between taxpayers on the one hand and the executive in power. But the "acts" or "measures" are quite a different thing from the plan or, as it is here called, the "budget" of the executive.[1]

The "budget idea" whose evolution in the United States is here traced bears little relation to the estimates presented by an irresponsible executive or to the devices by which financial legislation is passed in a scheme of invisible government, with no means provided for bringing executive and legislative action to the test of approval or disapproval by the electorate. Those methods, which do not make for responsible government, are not the subject of this essay. The view adopted is the only one that is compatible with the evolution of constitutional law where "control over the purse" has been effectively used to bring the institution and practices of a representative system into harmony with the ideals of democracy and popular sovereignty.

Taken as a whole it may be said that until within the last few years the "budget idea," as the term is here used, has had no evolution whatever in the United States. Our citizenship, our legislators, and our constitution makers have until recently been as innocent of such an idea as an unborn babe. True, President Wilson had written a masterly treatise calling attention to the *devolution* of our government—to the gross departure made from the ideals of the constitution as it was understood by the fathers—

[1] There are two special treatises on what the authors have chosen to call budgets in this country, *viz.:* Eugene E. Agger's *The Budget in the American Commonwealth*, 1907; and S. Gale Lowrie's *The Budget*, 1912. Both of these proceed from the notion that the documents which have been developed in American practice to carry out the various constitutional inhibitions and the devices used to control expenditures are budgets. While these works are highly meritorious exposés of American methods, the practices described are so far afield from what is here described as the "budget idea" that the contrast should be noted. And this distinction should be drawn if we are to consider the merits and demerits of these two widely differing practices.

and in this pointed to the fact that the administration was gradually drifting over into the hands of some forty odd irresponsible congressional committees. True, President Lowell and other students of foreign government had also written volumes on the gradual development of the principle of executive responsibility under representative systems abroad, and pointed to the part that the "budget idea" had played in this development. But these writings were unnoticed, except in academic discussion. The "practical" man complacently turned a deaf ear, or, if he did not refuse to listen, patronizingly put an end to all suggestions and arguments with the bold assertion that the idea was "undemocratic" and "un-American." When a single Congress authorized a billion dollars of expenditures and the party in power was attacked for extravagance, the answer was that "this is a billion-dollar country." But increases in expenditures went on until within a few years we had a "two billion-dollar Congress." It was the uncontrolled and uncontrollable increase in the cost of government that finally jostled the public into an attitude of hostility to a system which was so fondly called the "American system." This growing hostility to doing business in the dark, to "boss rule," to "invisible government," became the soil in which the "budget idea" finally took root and grew. Questions raised by Mr. Tawney, as chairman of the committee on appropriations, with respect to the system of raising and spending money were not new. It was only the circumstance of the "two-billion-dollar Congress" that caused the public to be disturbed. The bold assertion of Senator Aldrich that if he could run the federal government as he would a private business he could save $300,000,000 a year did more to upset complacency and bring about a demand for change in the methods of doing business than all the treatises that had been written on defects in the organic law. But this dramatization of waste had a constructive value. It caused men to ask for a remedy. It caused people to read and reread what had been written by President Wilson in 1885; it caused editors and writers to consider the methods employed in other countries which had succeeded in making their governments responsible; it provided an occasion for editorial comment; it made an audience for Professor Ford's book,[2] which pointed to the fact that what had been so patronizingly characterized as un-American in methods of political control

[2] *The Cost of our National Government*, by Henry Jones Ford, 1910.

in England, continental Europe, Bermuda, Australia, and Japan were the methods used in the management of private business, and what had been so much lauded as the American system could be nothing else but wasteful and subversive of the very purposes of democracy.

Efforts Made to Apply the Budget Idea in the Federal Government

This brings us up to President Taft's administration. During President Roosevelt's two administrations, the ship of state had been rocked and tossed about by storms of abuse. In this both the President and Congress took an active part, but nothing towards constructive legislation was undertaken which had a distinct bearing on the methods of controlling the national finances. For a period of six months after March 4, 1909, these storms subsided only to break again with renewed force. But the storm center was not the cost of government; it was the tariff, "standpatism", "government for the privileged classes." From the viewpoint of those who were interested in the development of the "budget idea," this was unfortunate, for President Taft had seriously undertaken to use the great powers and the influence of his office to foster that idea.

The President's Inquiry into Methods of Doing Business

President Taft's answer to the demand for economy was to ask Congress in December, 1909, for an appropriation of $100,000 "to enable the President to inquire into the methods of transacting the public business . . . . and to recommend to Congress such legislation as may be necessary to carry with effect changes found to be desirable that cannot be accomplished by executive action alone." As soon as this appropriation had been made available the President instructed his secretary, Mr. Charles D. Norton, to make plans for the organization of the work. A preliminary inquiry was begun on September 27, 1910. The first task of Secretary Norton was to organize within each department a committee which would coöperate with the White House staff in developing a definite plan of work. Speaking on the magnitude and difficulty of the task, the President in his first report to Congress said:

> I have been given this fund to enable me to take action and to make specific recommendations with respect to the details of transacting the business of an organization whose activities are almost as varied as those of the entire business

world. The operations of the government affect the interest of every person living within the jurisdiction of the United States. Its organization embraces stations and centers of work located in every city and in many local subdivisions of the country. Its gross expenditures amount to nearly $1,000,000,000 annually. Including the personnel of the military and naval establishments, more than 400,000 persons are required to do the work imposed by law upon the executive branch of the government.

This vast organization has never been studied in detail as one piece of administrative mechanism. Never have the foundations been laid for a thorough consideration of the relations of all of its parts. No comprehensive effort has been made to list its multifarious activities or to group them in such a way as to present a clear picture of what the government is doing. Never has a complete description been given of the agencies through which these activities are performed. At no time has the attempt been made to study all of these activities and agencies with a view to the assignment of each activity to the agency best fitted for its performance, to the avoidance of duplication of plant and work, to the integration of all administrative agencies of the government, so far as may be practicable, into a unified organization for the most effective and economical dispatch of public business.

The Organization of the President's Commission on Economy and Efficiency

One of the conclusions reached as a result of the preliminary inquiry is the following:[3] "A very conspicuous cause of inefficiency and waste is an inadequate provision of the methods of getting before Congress a definite budget, *i.e.*, a concrete and well-considered program or prospectus of work to be financed."

The Need for a Budget one of the first Subjects of Inquiry

When the Commission was organized sufficiently to permit of collective consideration of work to be done by it, a program of work was formulated which provided for five fairly distinct subjects to be handled, as follows: (1) The budget as an annual financial program; (2) The organization and activities of the government; (3) Problems of personnel; (4) Financial records and accounts; (5) Business practices and procedure.

In the preliminary inquiry one of the first steps taken had been to ask the several departmental committees coöperating with the

[3] *See* report on the preliminary inquiry under authority of the civil act of June 25, 1910, prior to the organization of the President's Commission on Economy and Efficiency, covering the period September 27, 1910 to March 8, 1911—circular No. 29 of the commission.

President to reanalyze the estimates in such manner as to show the different kinds of things that were being purchased by the government and the amounts spent and estimated for each. As a result of this inquiry the President for the first time had brought before him a summary of such facts as the following: The amounts spent by each bureau, by each department, and the government as a whole analyzed to show what part was for such things as personal services; services other than personal; materials; supplies; equipment, etc. For the first time it became known that the government was spending nearly $400,000,000 for salaries and wages (the digest of appropriations made it appear that only $189,000,000 was for this purpose); that the government was spending $12,500,000 for the transportation of persons; that it was spending $78,000,000 for the transportation of things; that it was spending $8,000,000 for subsistence of persons and, in addition, was spending $18,500,000 for provisions, and $5,500,000 for wearing apparel, etc.

Among the first things undertaken by the commission after its organization was to continue the analytical work with a view of preparing a report on the need for an annual budget. In July, 1911, forms were drafted. These were discussed with department heads, and on August 1 were submitted to the President for his approval. On August 7 the President sent these forms to the departments and requested that they reclassify the data which was being obtained for the purposes of official estimates then in preparation. The forms asked for information on three subjects: (1) Expenditures for fiscal year ending June 30, 1911; (2) Appropriations for the fiscal year ending June 30, 1912; (3) Estimates for appropriations for the fiscal year ending June 30, 1913. A different form was prepared for reporting on each of these subjects and a fourth form for a recapitulation. Each of these forms was so drawn as to provide for showing the amounts expended, appropriated or estimated: (1) By each organization unit; (2) For each class of work to be done; (3) By character of expenditure, such as current expenses, capital outlays, fixed charges, etc; and; (4) By the amount which had been expended, appropriated or estimated under each act or class of acts of appropriation—whether by annual appropriation, permanent legislation, etc. The heads of departments were asked to have these returns in by November 1, but it was not until after the first of the next year that they were made available to the Presi-

dent. This was due to the fact that the forms required by Congress were along entirely different lines, and it was necessary for the heads of departments to have the official estimates in the hands of the treasury and before Congress on a prescribed date.

The report of the commission on "the Need for a National Budget" was sent by the President to Congress with his approval on June 27, 1912.[4]

The President Urges Congress to Accept the "Budget Idea"

In his letter of transmission President Taft pointed to the fact that the Executive is charged by the Constitution with the duty of publishing "a regular statement of receipts and expenditures" and "that he is also enjoined from time to time to give Congress information on the state of the union and to recommend for consideration such measures as may be deemed expedient." With these constitutional prescriptions President Taft held that the President had the power to prepare and submit to Congress each year "a definite, well-considered budget with a message calling attention to subjects of immediate importance." The President stated, however, in his message that he did not assume to exercise this power except in coöperation with Congress; and he urged the necessity of repealing certain laws which were in conflict with the proposed practice.

The purposes of sending the report to Congress as described by the President were:

[4] This was printed as house document No. 854 of the 62d Congress, second session (568 pages). The members of the commission who participated in the preparation and signed the report, besides the chairman, were: Frank J. Goodnow, for twenty-six years professor of administrative law in Columbia University, now President of Johns Hopkins University; William F. Willoughby, for more than twenty years connected with the government service in various capacities, now constitutional advisor to the Chinese Republic; Walter W. Warwick, for many years connected with the comptroller's office and auditing service of the federal government, now the comptroller of the treasury; and Merritt O. Chance, for twenty-six years connected with various departments of the government, now postmaster at Washington. From June, 1911, to January, 1912, Mr. Harvey S. Chase was also a member of the commission, but due to illness he was not able to be in Washington during the time that the budget report was being prepared and therefore did not share in authorship or join in signing the report. The subsequent use which Mr. Chase has made of the report, however, indicates that he is in general accord with the recommendations of the commission.

To suggest a method whereby the President, as the constitutional head of the administration, and Congress may consider and act on a definite business and financial program;

To have the expenditures, appropriations and estimates so classified and summarized that their broad signifinance may be readily understood;

To provide each member of Congress, as well as each citizen who is interested, with such data concerning each subject of interest as may be considered in relation to questions of public policy;

To have these general summaries supported by such detailed information as is necessary to consider the economy and efficiency with which business has been transacted;

In short, to suggest a plan whereby the President and Congress may coöperate, the one in laying before Congress and the country a clearly expressed administrative program to be acted on—the other in laying before the President a definite enactment for his judgment.

This was the first time that any responsible officer of the national government had advocated the "budget idea." This report not only contained a descriptive and critical report on the past practices of the national government with constructive recommendations, but supported these recommendations with an appendix of forms and a digest of the practices of thirty-eight other countries, in most of which the "budget idea" had already been incorporated and made a part of the public law.

Immediately following the submission of this report to Congress (July 10), President Taft issued an order to the heads of departments to depute some officer with the duty to see that estimates of summaries for the next fiscal year would be prepared in accordance with the recommendations contained in his message of June 27, and in a letter directed the secretary and treasurer

to print and send without delay to Congress the forms of estimates required by it; also to have sent to him (the President) the information asked for. . . . . This will be made the subject of review and revision and a summary statement in the form of a budget with documents will be sent to Congress by a special message as the proposal of the administration.

Report and Recommendations Pigeon-holed

At the time that this order was issued, Congress had not yet passed all of the annual appropriation bills—some of the bills as passed having been vetoed by the President. When on August 24 the sundry civil bill became law it contained one clause modifying the form of the estimates to incorporate some of the suggestions of the commission, and another clause requiring the heads of depart-

ments to submit the estimates in the form and at the time required by law to be submitted and at no other time and in no other form. Following this, when it came to the attention of President Taft that heads of departments expressed some doubt as to what were their duties in the matter, on September 9 the President sent a letter to each member of the cabinet, in which each was instructed to follow the orders both of the President and of Congress. With both houses of the legislature organized against the executive and making demands on the departments for information, the retiring chief executive had difficulty in obtaining the information desired. About February 1, however, all the data had been brought together and, on February 26, President Taft submitted to Congress a budget with a message, which was referred to the committee on appropriations and ordered to be printed with accompanying papers.[5] And there it lay without consideration, action or report.

Acceptance of "Idea" by the Public

The budget proposals of President Taft, however, were not pigeon-holed by the public. They were taken up by the press throughout the country. Almost unanimously they had the support of public opinion. This opinion was further registered in a referendum which was taken on the subject by the Chamber of Commerce of the United States. Furthermore, many leading men, and even some of the members of Congress who, at the time expressed themselves as being opposed to an executive budget, from time to time since then have come out strongly for the "budget idea." One of those who has been emphatic in his opinion, is Congressman John J. Fitzgerald, chairman of the appropriation committee, who at the time the budget was referred to his committee opposed the act as executive interference. But Mr. Fitzgerald, speaking before the committee on state finances at the constitutional convention at Albany, June 26, 1915, said:

> We ought to have some way in the system of our government to fix direct responsibility, and you cannot fix responsibility if the power is too greatly scattered. . . . . I would put it with the Executive. I would make him responsible at the outset. . . . . Some persons object that we should not deprive the representatives of the people of the right to loosen up the purse strings, but the

[5] *Senate document 1113*, 62d Congress, 3d session.

universal condition of this country today is not that we must safeguard the rights of the people to get money for things. The whole curse of our condition is that everybody is doing his utmost to get it and succeeds; and the evil to be corrected is the evil of excessive expenditure. . . . . Now if there were some way by which that could be stopped . . . . it would do what is done in the governments where they had a responsible government with the budget system. If my constitutents were keenly interested in some matter that required an expenditure of public money, I would be compelled to present the matter to the department that had charge of it. They would make their investigations. They would determine whether it was one of those things that should be included, and they would have to take responsibility for requesting it.

Outlook for a Federal Budget

With President Wilson's long standing advocacy of a budget system, with Secretary McAdoo's reported determination to work for the introduction of a budget procedure; with the chairman of the appropriation committee outspoken in his belief as quoted above, it is confidently expected that something may be done in the next Congress to adapt the laws of the federal government and the procedure of Congress to a practical relation whereby the country may have the benefit of executive leadership and the voting of money may rest on a plane of openhanded dealing.

The Budget Idea in State Government

The provisions in the state constitutions as they were originally drawn having to do with the relations of the executive to the legislative branch follow very closely those of the federal constitution. At present, however, they differ very materially, due to the fact that the federal constitution, with few exceptions, is as it was originally drawn while the state constitutions have been frequently changed. With the federal government there has been a gradual departure in practice from the spirit and expression of the constitution as drawn. This was pointed out very clearly by President Wilson in his treatise on congressional government. In the state, the changed attitude of the people toward the government is found in the gradual decimation of executive power on the one hand and the increasing number of limitations placed on the legislature on the other.

Requirements of State Constitutions

It is of interest to note the duties that are imposed by state constitutions on the governor having to do with matters of money

raising and accountability for expenditure. In every state in the union some such provision as this is made: That the governor shall "from time to time" or "at every session" or "at every regular session" give the legislature information on the condition of the state and make recommendations. In four states—Colorado, Idaho, Illinois and Kansas—it is required that he shall "recommend measures." As a matter of practice, however, these requirements have been construed in the same manner as the similar provision in the federal constitution. The governor has not been assumed to have any standing whatever before the legislature until a bill is passed. He has not been assumed to have any right personally to introduce any bill or to appear for or explain or defend any measure openly. Nine of the constitutions[6] require that the governor shall present at the commencement of each regular session estimates of the amount of money to be raised by taxation for all purposes. These provisions, however, have not been so construed as to lay upon the governor the requirement of preparing and submitting a "budget," nor has any procedure been developed that is based on such an assumption. As a matter of fact, the constitutional provisions have been either perfunctorily complied with by subordinates or have been dead letters, as is pointed out in the report of the Committee on Efficiency and Economy of the state of Illinois.[7] Although the governor was specifically directed by the constitution to lay before the legislature the estimates of money required, the committee states that so far as they could ascertain no attention whatever had been paid to it. This, however, has only to do with the amount of money required to be raised by taxation; it does not lay upon the governor the duty of submitting estimates of proposed expenditure.

In the constitution of Maryland it is made the duty of the comptroller to prepare and submit estimates of revenues and expenditures. Other constitutions require that one or more other state officers shall prepare such estimates. In states where no constitutional requirement has been laid on the governor, or state officers, statutes have been passed providing that certain officers individually or acting as a board *ex-officio* shall prepare and submit estimates.

[6] Ala. V, 123; Colo. IV, 8; Ida. IVA; Ill. V, 77; Mo. V, 10; Mont. VII, 10; Nebr. V, 77; Tex. IV, 9; W. Va., VII, 6.

[7] *See* report of the Economy and Efficiency Committee of Illinois, p. 22.

Boards of Control

The futility of efforts to establish a budget procedure without some means whereby the executive may be responsible for its proposal and in which the executive will be required to explain and defend the financial measure of the administration is shown by the experience in each of the forty-nine instances where it has been tried. In 1912 Wisconsin undertook to provide a means whereby a budget might be developed as a joint measure of the legislature and of the administration. It was in support of this idea that the report written by Dr. Lowrie was submitted through the State Board of Public Affairs. While this may be a desirable adaptation, as long as we are to assume that the governor is not to be a chief executive and that the government is to be divided up into various small jurisdictions over which there is no control other than that of the legislature, it is not a method which is consistent with the "budget idea."

New York undertook to interject into its budget procedure a means of central control by the same method.[8] The purpose of this board was to make a budget as the term was understood by the legislators. The board was made up of the governor, lieutenant governor, the president *pro tempore* of the senate, the chairman of the finance committee of the senate, the speaker of the assembly, the chairman of the ways and means committee of the assembly, the comptroller, the attorney general, the commissioner of efficiency and economy—and four members *ex-officio* of the legislative branch and five members *ex-officio* of the executive and administrative branches. The first year that the estimates came before this board it was unable to come to any conclusion and made no report except such as was submitted through two officers of the board upon each of whom was laid the responsibility independently for submitting estimates with reports thereon.[9]

The unsatisfactory operation of the laws governing the admi-

[8] *See* laws 1913, ch. 281—An act to establish a state board of estimate.

[9] The commissioner of efficiency and economy was required to make a careful study of each office, examine the accounts, prescribe the form of submitting departmental estimates and examine these statements, and make recommendations. The comptroller was also required by law to prepare and submit to the legislature estimates of revenues and expenditures. Both of these officers performed the duties required by law, but the "board of estimate" were unable to come to any conclusion. Both of these officers were also members of the board of estimate.

nistration of various states, within the last few years, has been the subject of much popular unrest. In recognition of this dissatisfaction several states have appointed commissions or committees of inquiry for the purpose of ascertaining wherein the methods of conducting business may be changed with a view to increasing efficiency and economy. In 1912, Massachusetts and New Jersey each appointed such a commission. In 1913, New York, Pennsylvania, Minnesota, Iowa, Illinois and California appointed commissions or committees with instructions to report. Most of these commissions have pointed to the irresponsive character of our state governments; all of them have made recommendations.

Under the federal constitution the President is made responsible to the electorate for the executive departments. It was the opinion of President Taft, set forth in a special message to Congress, that the President had the power, under the federal constitution, to prepare and submit a budget, although, without constitutional change or legislation, his proposals might receive no consideration. In the states, however, the executive branch has been so far carved up into independent jurisdictions that the governor could not obtain the information or coöperation required to make an executive budget effective. The only remedy is constitutional revision, which looks toward executive reorganization as well as a definite prescription for a budget.

New York, through its constitutional convention—the one which has just adjourned—is the first state that has ever undertaken to frame the financial measures of its constitution around the "budget idea." The extent to which the convention succeeded in injecting this idea into the constitution will appear from a reading of the draft which in November will be submitted to the electorate for their approval.

Budget Ideas Applied to Municipalities

The political consciousness of the duties of citizenship was first awakened in the government of our municipalities. There, attention was first given to matters of electoral reform and charter reorganization. Later, through the organization of independent civic agencies with staff equipment to inquire into matters of public business, attention became centered on methods and results. Among the first conditions which came to attention, after these agencies of

citizenship began to direct their attention to details, was the fact that the accounts did not provide the information needed to show what the government was doing, how it was doing it, what results were being obtained and what was the cost of results—whether good, bad or indifferent. Furthermore, it was found that responsibility for these conditions could not be located. The whole administration had been carved up into little jurisdictions and the business put into pigeon-holes and pockets in each of which some officer or subordinate came to have what was regarded as a proprietary interest or right to control. As a means of breaking down these many petty jurisdictions and requiring information on standard lines to come to a central office where it could be summarized and coördinated, the cities were led to adopt the same general method that had been employed in the national government—namely, that of sub-dividing appropriation accounts to such an extent as to force administrative agencies to account in detail to the legislative committee charged with the consideration of the appropriation bill. This detailed subdivision of appropriation accounts has come to be called a "segregated budget"—an evident misnomer. What the cities did which developed a new appropriation procedure from the viewpoint of enforcing accounting requirements was to confuse the "act of appropriation" with a "budget." Since these legislative committees had no means of limiting administrative action in any other way, they substituted a highly detailed appropriation for control through a responsible executive by use of a "budget" under general law requiring detailed accounts to be prepared and submitted in support of the requests of a chief executive. This was only one more step in the direction of government by limitations instead of a step in the direction of responsible government with powers and a means of enforcing accountabilities.

But in another respect this experience has been misleading. The "budget idea" as it is here used assumes a responsible executive—in other words, such an idea cannot obtain in any jurisdiction, municipal, state or national unless there is some one who is responsible for executing the plans—for doing the things for which appropriations and revenue grants are requested. Where no such provision was made to definitize and locate responsibility and where no means was provided for enforcing efficiency and economy in administration what was called the "segregated budget" gained advocates

through preventing officers from doing harm. The cities which have adopted this means have been able to exercise control but they have not been able to establish responsibility—in fact, the method is one which stands in the way of enforcing responsibility for that discretion in management which will make for efficiency.

Municipalities that have been attempting to make budgets have suffered as much from charter provisions, passed on the theory that the purpose of a charter was to keep officers from doing harm, as have the states in their constitutions. For example, the city of Philadelphia, which has done much toward working out the forms and procedures of budget control, has not been able to make this effective because, although it has a highly centralized executive organization, the mayor is not made the responsible leader before councils in securing measures for better administration—the comptroller is the only one who by charter is permitted to submit to the board of aldermen the estimates and no one is required to assume responsibility for a definite financial plan or proposal for the next fiscal period. The finance committee on councils stands in the same relation to the administration in this respect as does the committee on appropriations of the national government. It is not until the finance committee has completed its work that there is anything officially before councils for consideration.

The charter of the city of New York constitutes a board of eight members as the chief executive of the city, made up of the mayor, the president of the board of aldermen, the comptroller, and the five borough presidents. In this there is no provision for the principle of solidarity of responsibility. Although the constitution requires that this board prepare and submit each year to the board of aldermen a budget, it has never done so in the sense in which the term "budget" is here used. What it has done is to prepare and submit each year in November an appropriation bill which when enacted by the board of aldermen determines expenditures for another year. Following the budget principle the board of aldermen is not permitted to make any change except to reduce and in this respect the charter has gone farther than in some other cities. It is some months later that the revenue proposals come before the city authorities. In any event the board of estimate and apportionment of the city of New York never has prepared and submitted to the board of aldermen a financial plan which will bring before the

city a prospectus of what is proposed nor a statement of affairs which will enable citizens or the board of aldermen to know what is the financial condition at the time that a vote is asked for.

Conclusion

In conclusion it may be said that the "budget idea" is just beginning to take hold of the American mind; that for a period of one hundred and twenty-five years American political institutions have been drifting steadily away from conditions which made the successful operation of a budget principle possible—away from responsible government; that the condition which is making possible the introduction of this idea into our political system has been a reaction against the results of irresponsible government, the political boss, log-rolling methods, pork barrel legislation; that the "budget idea" has finally come to be thought of as a constitutional principle —one which has been used effectively for the purpose of developing representative government and keeping it in harmony with the highest ideals of democracy.

While this idea has but recently been made a part of American political thinking it is one that is becoming rapidly absorbed and made a part of our political philosophy. More than any other principle of control, it is commanding the confidence and respect of those persons in the nation whose influence is being felt in legislatures and constitutional conventions, and other assemblies charged with the responsibility of redrafting our public law.

THE BUDGET AND THE LEGISLATURE

By Rufus E. Miles,

Director of the Ohio Institute for Public Efficiency, Columbus, Ohio.

Under the governmental institutions existing in this country, the legislative branch of government has ultimate authority over the public purse strings. Without its sanction in some form, no taxes may be imposed or other revenue raised; while on the other hand it may place such restrictions as it deems advisable upon the purposes for which expenditures may be made, or the amounts which may be expended for any particular purpose.

In many of our governmental units, this power of the legislative body is exercised in a haphazard, hit-or-miss fashion, little or no effort being made to take under systematic consideration the financial policy as a whole. Regular appropriations, special appropriations, supplementary appropriations, deficiency bills, etc., follow one another in confusing sequence, with little thought of where the money is to come from, the result being that nobody in the community, not even the officials themselves who are presumably responsible, have any intelligent idea of the existing financial status or of the policy which is being followed.

Reduced to its lowest terms, budgetary procedure is coming to signify a means through which this power may be exercised in a systematic and intelligent manner, taking all factors into consideration at the same time, or with relation to one another, and enacting or determining upon, so far as possible, all legislation at once for a given period.

The present article is not an attempt to add new contributions of a technical character to existing discussions of the subject. If it can by restatement present the main principles in such a way as to be helpful to a wider understanding of them and of their application, the writer's object will have been achieved.[1]

[1]For more extended and technical discussions, the reader is referred to such documents as Nos. 58, 59 and 62 of *Municipal Research*, published by the New York Bureau of Municipal Research, the report of President Taft's Commission on Efficiency and Economy entitled, *The Need for a National Budget*, and more formal treatises.

The greater part of the following discussion is stated in somewhat general terms, being in the main intended to apply broadly to all governmental units, whether federal, state, or local. Where particular instances are cited, they will be chosen from conditions with which the writer happens to be familiar, and for that reason only.

It is a familiar fact that the financial operations of the government are the reverse of those of private enterprise in one respect; instead of regulating its expenditures by its receipts, government to a considerable degree first determines upon its expenditures and afterwards upon the methods of securing the funds with which to meet those expenditures. Thus the budgetary procedure addresses itself to two main questions:

1 How much money is needed for a certain period?

2 How shall it be raised?

The advantage, if not the necessity of considering these two questions together is readily understood. No matter how much money is needed, there may be practical limitations to the possibility of getting it. Such limitations may be legal, political, or financial.

Municipalities may be subject in their tax levies to the limitations of a state law; elective officials, even when convinced of the advisability of increased expenditures, may hesitate to raise the tax rate because of its possible reaction on their political futures; in spite of a desire to proceed with public improvements, financial conditions may not be such as to enable the ready or advantageous marketing of the necessary bonds.

On the other hand, if money is plentiful, "needs" show themselves capable of expansion *ad libitum* or *ad nauseam*, according to the point of view. Like an individual, government can at some times and under some conditions "afford" to enter upon undertakings which at other times and under other conditions it can not.

Other considerations may be instanced. Taxpayers may be willing to agree to additional amounts for certain purposes, but not for others. Where referenda on extra levies are involved, such preferences may be decisive. Taxpayers have nearly always responded favorably to appeals for the support of schools, but have only recently begun to appreciate health needs. Legal limitations sometimes differ with reference to the purpose of expenditure. Thus it often becomes necessary to specify what a proposed expenditure is

for, in order to ascertain whether the money can be secured. To some extent, therefore, the consideration of income and expenditures simultaneously is unavoidable.

On the other hand, difficulties may be encountered in trying to make this simultaneous consideration of income and expenditures for a given period entirely complete. Emergencies of various kinds may occur which it was genuinely impossible to foresee. The procedure in connection with public improvements, especially where assessments on benefited property are involved, does not always lend itself readily to the same method of handling as the procedure relating to current purposes. As far as possible, however, a comprehensive review of the whole financial situation and policy at once is desirable, including both receipts and expenditures for both current purposes and for public improvements.

The following diagram may serve to illustrate the logical relations of the main parts of budgetary procedure, although the chronological sequence may be different:

OUTLINE OF BUDGET SCHEME

	Expenditure	Income
Budget.....	Proposal of kind and amount of work to be done and of amount of funds needed therefor	Proposal of method of securing money with which to finance proposed work
Legislative action	Act of appropriation (a) authorizing and (b) limiting expenditures	Revenue and borrowing measures providing funds for meeting expenditures

In the meaning most usefully employed, the budget itself is primarily a *proposal* which *leads to*, or forms the basis of, *legislative* action. To be complete, the proposal should relate to both expenditures and receipts, as contemplated. The legislative action is thereupon directed on the one hand to the authorization and limitation of expenditures, and on the other to providing the necessary funds.

What shall the proposal, or budget, contain? Who shall formulate it? What shall be done with it in order to bring about

legislative action best calculated to promote an efficient public service?

The contents of the budget should be determined by the use to which the budget is to be put. If the budget is considered as a proposal to be presented to the legislative body as a basis for legislative action, then the budget should contain two kinds of material:

(1) The proposal proper, or request, as it may be called for convenience, which indicates a tentative course of action for which legislative sanction is desired, together with the facts upon which it is directly based.

(2) Collateral information which will aid in the consideration of the request and in the determination of how far it should be granted.

In current practice, it is common to find only the former, and even that in the barest outline. Mere letters dealing with expenditures only, and saying in effect, "We want $————" with little or no explanation or detail, are not infrequent.

Included as part of the proposal proper, or request, should be data setting forth:

(1) What kinds of work are proposed to be done.
(2) What quantity of results of each kind of work are proposed to be accomplished.
(3) What quantities of personal service, supplies and materials, etc., are estimated to be necessary to accomplish these results.
(4) The estimated necessary expenditures for these quantities of personal service, supplies and material, etc.
(5) When the proposed expenditures, if authorized, will probably be made.
(6) The available sources of revenue.
(7) The estimated amounts which will or can be derived from each source.
(8) The purposes to which the amounts from these sources are applicable.
(9) When the amounts from each source will be available.

The collateral information should be such as to show:

A. Relating to past performance:

(1) What kinds of work have been done.
(2) What quantity of results of each kind of work have been accomplished.
(3) What quantities of personal service, supplies and materials, etc., have been used in the accomplishment of these results.
(4) The actual expenditures for these quantities, etc.
(5) When the expenditures were made.
(6) The sources from which revenues were obtained.
(7) The amounts actually derived from each source.

(8) The purposes to which the amounts from these sources were devoted.
(9) When the amounts from each source were available.

B. Relating to present condition:

(10) What is the stage of progress of the work, and —
(11) What is the financial condition, both at latest convenient date and on corresponding previous dates, with comparisons indicating changes.

C. Relating to future needs:

(12) What are the kind and extent of needs which should be met during the coming period.

The degree of effectiveness which can be reached in marshaling such material in close working relations is greatly influenced by the periods for which the data are assembled and by the time at which the budget is formulated.

It is obvious that the more recent the information as to past experience, the greater is its value. It is an advantage, therefore, when the date of formulating the budget follows closely upon the end of an operative period.

On the other hand, it is equally obvious that the shorter the interval between the formulation of the budget and the beginning of the future period covered by its proposals, the more accurate its estimates are bound to be.

It is the view of the writer that the maximum of effectiveness might be reached if the budget could be formulated immediately after the close of an operating period, the interval up to the time when the new legislative action takes effect being bridged by an authorization to expend on account, or to continue pro rata as during the preceding period. Under such an arrangement, annual or biennial reports will be pressed into immediate service, and demands will be made upon them in the way of definiteness and accuracy which will vastly improve their form and content.

It is readily seen that to provide the data above indicated for budget purposes, systems of accounting and of service records are required. Without such systems properly designed, the necessary data can not be secured. It is not, however, within the scope of this article to enter upon a discussion of these further than to remark that they should be so devised as to enable expenditures and results to be matched accurately for given periods.

Of direct bearing upon the usefulness of the information pre-

sented in the budget is the classification of accounts. If the classification of expenditures employed fails to make distinctions between current operation and maintenance and those for capital outlay, it will be impossible to pass intelligent judgment upon the budget proposals. It is important also that the classification employed be flexible in application, ranging from extreme condensation to extreme detail and uniform for all departments.

The following classification of expenditures recently adopted by the State Bureau of Accounting of Ohio is of interest as being one of the latest developments in this direction.

Classification of Accounts

In order that the expenditures chargeable to the governmental functions or organization units may exhibit the information desired for administrative, statistical and other purposes, the expenditures are classified according to character of transaction and subclassified according to objects of expenditure.

Under each function or organization unit, the following captions denoting character of transaction are employed, the figures at the left of each serving as a code designation:

010 Operation.
100 Maintenance of Lands.
200 Maintenance of Structures and Improvements.
300 Maintenance of Equipment.
400 Contingent.
450 Debt Service.
500 Outlay for Lands.
600 Outlay for Structures and Improvements.
700 Outlay for Equipment.
990 Refunds.

Under each of the accounts in the above classification, in order that the object of expenditure may be denoted and separately charged under a specific caption, the following group of accounts may be used. The letters at the left of each serve as a code designation.

A. Personal Service.
B. Supplies and Material.
C. Contractual Service.
D. Contributions, Gratuities and Awards.

Suitable subdivisions in detail are provided for each of the accounts, but cannot be given here for lack of space.

In brief, then, the budget should contain such material as will in extent and form best enable it to present a definite working and financial program for a coming period, supported by adequate data for obtaining its approval by the legislature.

The question of who shall formulate the budget has been the subject of no little discussion, into which this article can hardly enter at any length. The views herein given are those of the writer, and are offered without argument for what they may be worth.

From its character as a body of information leading up to and supporting a proposed working and financial program, it would appear that the budget should originate where the work is being done and where the information is available, *viz.*, in the various departments of the executive branch. This seems not to be in controversy.

By whom, however, shall the departmental data be reviewed, modified, correlated, and united into a homogeneous whole? Among the considerations in favor of placing this function in the hands of the chief executive may be mentioned the following:

(1) By reason of the manner of his election, he represents the entire citizenship and not merely a section of it.

(2) There is now an increasing tendency in city, state, and nation, to hold the chief executive responsible for the policy of the government as a whole.

(3) It is a part of the regular duty of the chief executive to understand, correlate and supervise the work of the various administrative departments, which constitute the bulk of governmental work.

(4) It would be loose organization to have such departments dealing with the legislature independently of their chief, who is responsible for them.

(5) When the program contained in a budget formulated by the chief executive is approved by the legislature, the most definite and concentrated responsibility possible is placed upon him to carry out that program as set forth therein.

For such reasons, briefly stated, the writer agrees with those who hold that the budget should be formulated by the executive and be by him presented to the legislature.

In order that the budget may be kept within proper limits, the departmental proposals should at one or more points be search-

ingly examined in the light of the supporting data, to see that a case has been established, the burden of proof being considered to be on the proposals. Who should conduct this examination and how?

The scrutiny should be made from two standpoints—one, that of administrative efficiency; the other, that of general policy.

In view of the increasingly technical character of much of the public service, it seems necessary that the examination into administrative efficiency, to be effectual, should be conducted by a technically trained staff. That such a staff is an indispensable adjunct to the chief executive for the proper performance of his general administrative duties is coming to be more frequently urged. If such a staff constitutes a part of the executive's immediate organization, and if the executive is charged with the formulation of the budget as a single unified whole, the examination into the administrative technique of departmental proposals would most naturally take place at that stage. In such event, the main responsibility will come to rest upon the chief executive for ensuring that the proposals embodied by him in the budget are sound so far as administrative method and plan are concerned.

With respect to proposed general policies, the chief executive and the legislature may be expected to concern themselves almost equally, the one as initiator and the other as critic. It is too often the case that, for one reason or another, the action of one or the other is little more than perfunctory. Both, however, should conduct a thorough and systematic scrutiny of the proposals submitted to them. Their action thereon by way of approval or rejection will clearly locate official responsibility for the results.

So far as possible, the practice should be developed of the executive and the legislature coöperating in their consideration of problems calling for the action of both. Thus it would commonly prove advantageous for the investigations and data of the executive's technical staff to be rendered available to the legislature. Joint sessions of the executive and the finance committee or committees might well be found to expedite the consideration of the budget. The chief executive should have an opportunity, if he desires, to be heard, personally or by representative, in the legislative discussion of his proposals.

The submission by the executive to the legislature of the budget as a working and financial program raises several questions.

Is it advisable to limit the powers of the legislature in dealing with the budget? What shall be the form of the act of appropriation? What conditions should be attached to the authorization conveyed in the act?

It is urged that in dealing with the proposals contained in the budget, the legislature be restricted to a reduction or elimination of items, the argument being that there is a strong tendency to "log-rolling" and "pork barrels" arising in large degree from the sectional representation in the legislature.

The force of this argument would probably vary somewhat in its application to different constituencies. It would apply, for example, with less force to municipalities with councils or commissions elected at large than to state governments. In the commission manager type of city government, where the city manager is an appointee of the commission and the commission is the legal possessor of all powers, such a regulation would be still less in point. In the larger governmental units, however, it may well be found desirable. A restriction which clearly should be imposed upon the legislature in dealing with the budget is one preventing the imposition of "riders."

When the legislature comes to act, the form of its appropriation should be such as to impose only the restrictions necessary to ensure the proper application of public funds, while placing the fewest possible obstacles in the way of efficient administration. The combination is not easy to arrive at, and is perhaps not the same at all times or for all conditions.

Recent emphasis on the importance of the so-called budget, meaning thereby the appropriation, has apparently led many to suppose that everything can be accomplished through it. Functions have accordingly been imposed upon it which it is not suited to perform, and which should be performed by other instrumentalities, such as a proper financial reporting system, standardization of services and purchases, etc. Thus appropriations in minute detail, while fulfilling the purpose of securing the proper application of public funds, may and often do defeat the efforts of administrative officials to achieve efficiency and economy. The abuses of "lump sum" appropriations arose not only from the form of appropriation, but also from the absence of proper accounting and reporting meth-

ods which would substitute facts in place of guesses as a basis for discussing official policies.

From the standpoint of administrative efficiency, the presumption is in favor of a wide freedom to get results, subject only to the restrictions which experience has shown to be necessary to prevent specific abuses such as pay roll padding, indiscriminate salary increases, favoritism in appointments and promotions, closed or vague specifications, purchases without due competition, etc. To prevent such abuses, specific devices should be worked out which will offer a minimum of interference with administration freedom.

The much longed for efficiency in government cannot be obtained by securing experts and then tying them hand and foot. The two courses are largely inconsistent. We have been led into the tying method because we have not had experts with expert standards; to prevent our tyros from making excessive blunders, we have hobbled them. If now we propose to employ experts, as we should, we must cut away the hobbling devices and enforce their accountability by other and more grown-up means.

Nothing has thus far been said about the participation of the public in budget-making. The recent development of this factor has been marked, and should be encouraged up to the limit of practicability. It goes without saying that full publicity should characterize the budget proceedings from start to finish. Further than that, however, the interchange of views between officials, both executive and legislative, and the public as to the policies which should be embodied in the program should prove of increasing value to both, as the intelligence of the public, and especially of civic organizations of various types, grows with reference to governmental activities.

As has been pointed out in this connection, the right of petition is as fundamental and valuable a citizen's prerogative as the franchise and its systematic use as a factor in producing better government should be encouraged. The more extensively improved budget-making methods are put into operation, the better will be the public's understanding of governmental policies, and the more effective their participation is capable of becoming.

Much as has been said and written during the past few years about the budget, we have not even yet come to a full realization of its central importance. On the one hand, as advocates of social

progress are continually reminded by experience, forward steps are more frequently halted or delayed by alleged inability to finance them than by direct objections to their merits. For social workers and others favoring the extension of governmental functions an understanding of the budget as the financial program thus becomes essential. On the other hand, the extension of governmental functions may well be looked upon with concern unless more effective instruments of control are developed than are now in operation. The contention that until government can do well what it does do, it should not receive greater responsibilities, is too near the mark to be ignored. Expansionists and conservatives alike, therefore, may well turn their attention to the budget as the medium through which to attain their objects; for the power to raise and spend money is in practice the central power of government.

THE PROPER FUNCTION OF THE STATE BUDGET

By S. Gale Lowrie,

Professor of Political Science, University of Cincinnati.

The history of the development of representative government is the record of a struggle for popular control of the public purse. There is no principle upon which our political institutions are more firmly based than that the public finances, both with respect to the raising of revenues and the expenditure of state funds, should be regulated by those upon whom levies are to be made. The great land-marks of our constitutional history, the Magna Charta, the Model Parliament, the Declaration of Independence, the formation of the Union—all had their inception in the desire for a reform in fiscal management. No nation has made a more constant effort than have we to escape the perils of bureaucracy and to keep representative the offices charged with the management of the affairs of government, particularly those involving expenditures. Nevertheless, we stand almost alone among modern governments in that neither our federal government, nor any state, has as yet installed the most necessary device for regulating our public expenditures,—a modern budget system. With the tremendous growth in the cost of government, which the past decade has witnessed, caused chiefly by the ever widening scope of our governmental activity, there has been no little alarm because of the increased demand for revenues. Most of our states have begun to take serious thought of the need for new budgetary methods and we have ventured to hope that an adequate fiscal system may be installed in our federal government. Though attention has been drawn to the desirability of this reform and several states have proposed changes, looking toward a better control over public grants, no wholly adequate method has yet been adopted. In fact we have hardly begun to think clearly enough on the subject to know what may and what may not be accomplished through an adequate budget plan, or to know just what sort of a budget plan is desirable.

The budget is the fiscal plan of the government. It embraces an estimate of the receipts which are expected during the period

under consideration and of the expense of carrying out the program of work contemplated. A most essential feature of any budget is a budget balance—a close correlation between the state's receipts and disbursements. Should the revenues of the government exceed the authorized expenditures, a surplus will accumulate in the public treasury which not only represents an economic loss in taking funds needlessly from commercial channels, but which, as the experience of our federal government particularly has shown, invites extravagance upon the part of succeeding legislative assemblies. On the other hand, should the income of the state prove inadequate for the program adopted, the governmental functions must be interrupted and grants authorized be denied, or the services must be carried on through borrowings which must be repaid with interest at some future time. To establish a proper balance between estimated receipts and disbursements requires the most intelligent planning by persons possessed of the fullest information of the fiscal affairs of the state. It is no slight evidence of the skill with which the British budget is prepared that in normal times, the discrepancy between actual receipts and disbursements seldom exceeds $1\frac{1}{2}$ per cent. Not only must a balance be established between income and expenditure but a most careful scrutiny must be made of the work to be undertaken to see that the available funds are distributed wisely among the various state services. This can be accomplished only where the planning body has an intelligent understanding of the many phases of the state's activity and a definite program in view.

The first essential of any adequate budget plan is the preparation of estimates. This is a highly technical duty and must be performed by those most familiar with the facts. For this reason the best qualified officer to estimate the receipts is the auditor or other person whose duties give him the fullest information respecting state funds. The proper officers to prepare estimates of needed appropriations are the department chiefs. They are the government's experts in their respective fields. They have the most intimate knowledge of the work in their charge and of the appropriations needed for their proper development. Consequently every modern budget plan is based upon departmental estimates of funds required, together with the estimates of anticipated income from the official who best knows what the state will probably receive.

The accumulation of these data, however, is but the commencement in the preparation of the state budget. From these recitals of departmental requests, a state-wide plan must be evolved, wherein one need is weighed against another, and the entire scheme of expenditure compared with the plan for raising revenues, so that a well-rounded program may result.

There has been some difference of opinion as to what officer or body should receive the departmental estimates and prepare the state budget. Some have considered it a duty which should be performed by the chief fiscal officer, the auditor. Others have thought it to be the function of the chief executive, while still others hold that a committee, upon which these officers and members of the legislature are represented, should discharge this service. There is little doubt, however, in the minds of those who have given the matter most serious consideration, but that the chief executive is the proper officer for this task. The budget embodies the government's fiscal policy. It is a definite proposal for legislative action. It must be prepared by one thoroughly familiar with the government's plan of activity, and familiar with the needs of the state in its various branches. None other than the chief administrative officer possesses the information necessary for the construction of a proper plan, nor is any other official or body commissioned to propose legislative policies. Consequently, one can scarcely question that it is the duty of the Governor in our states, and of the President in our federal government to execute this task. But while it has become an established practice in our cities for the Mayor to propose the municipal budget, the practice has not as yet been followed in our state or federal governments. The requirement that the Governor prepare and transmit a budget is one of the most excellent features of the proposed constitution for the state of New York. It is made the function of the Governor of Ohio by statute, but as yet fear of usurping a legislative prerogative has prevented the executive of this state from properly discharging this duty.

But, however wisely and carefully the budget may be prepared, unless it is received by the legislative assembly in a spirit of coöperation, little good can result. The appropriating body may disregard the expert estimates submitted to t and proceed on its own motion to prepare a statement of what it believes to be the departmental needs. This practice is followed in France and is the cause of much

of the difficulty experienced with the system of appropriations of that country. Or the state budget, instead of being considered in its entirety as a great plan for the whole government, may be separated into parts and referred to distinct committees. This is the practice in our federal congress, where in the lower house alone, appropriation bills are considered by eight different committees. It is also a vice of the French system. Whether the legislative body be unicameral or bicameral, whether it sit as a committee of the whole or act through sub-committees, it is essential for any well-rounded plan that all phases be considered together. No intelligent plan embracing the entire state can be formulated or approved unless all the anticipated receipts and all the contemplated expenditures are viewed at the same time by the joint legislative assembly, or by a single joint committee.

The practice which has been followed in our federal government, and in our states, has signally failed because the most essential feature of state-wide planning has been lacking. It has been assumed that it is the function of the legislative assembly to propose the appropriation measures. In some way, it has been thought that this method assured a control of expenditure more in keeping with popular desire and that a check on the extravagance of administrative officials might thus be maintained. But our experience with the plan of legislative initiation has not been a happy one. The reason is simple—the preparation of the budget requires a minute insight into the affairs of the state departments, which the legislature does not have, and a skill in planning for the development of these agencies which the members can not easily acquire. By its very form, the legislature must be an approving, rather than an initiating body. Initiation must be an individual act. To require legislative initiation is to demand that some delegated member propose a plan for approval, and no member of the legislative assembly, with the machinery at his disposal and with his limited experience, can prepare a proper fiscal program.

The first step then in the making of a budget is the formation and submission of a plan by the executive for the support of the state service for the fiscal period. This is effected by the transmission of estimates prepared by the various departments and so adjusted as to make a harmonious plan for the whole state. The second step is the criticism and approval of these plans by the

appropriating body, keeping in mind always the resources and the entire demands to be met by the public treasury. The third step is the passage of the appropriation act, which is the authorization of the legislative body to spend. When this has been granted, the evolution of the budget is nearly completed. There remains but the function of the auditor in determining that the actual expenditures have been used for services authorized by the legislature.

One of the reasons we have made so little progress in budgetary matters in this country is that we have not had a clear idea of what a budget system really involves and just what we may reasonably expect to accomplish through its use. In fact the question might well be raised as to whether we have not done more to promote ignorant, corrupt and inefficient government through the adoption of ill-devised appropriation systems than to establish economical and intelligent government by the adoption of rational methods of granting funds. It is therefore as important to note what a proper budget plan should not include, as to mark its chief essentials.

An appropriating law which specifies in great detail the purposes for which alloted funds may be used, does not, by virtue of this feature, become a budget system; nor does the incorporation into the appropriation bill of restrictions as to the use of funds make a state budget; nor the inclusion of provisions that grants are to be available but for one year produce this magic device for efficiency, though many administrations have boasted the installation of a modern budget system because of the inclusion of one or more of these most undesirable elements. A budget is an orderly arrangement of data embodying the estimated needs of governmental services for the fiscal period, accompanied by a request, preferably in the form of a bill, for authorization to spend public funds in accordance with the plan set forth. A proper budget contains all the information which the legislature can use in order to enable it to come to a proper understanding of the government's needs. The departmental estimates revised by the submitting authority to fit the requirements of the state-wide plan, records of previous costs for like services and such other data as will justify the requests will all be contained in these documents. The appropriation law is not the budget, but is the authorization to spend granted by the legis-

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lative authority after a perusal of the information contained in the budget.

A common difficulty found in our appropriating systems as they are operated in our American states arises from the fact that too many things are expected of the appropriation law. Not only does the legislature attempt in this act to present a plan of work for the administrative departments, but to correct payroll abuses, prevent improper purchases, provide a reporting system and what is thought to be a more efficient organization of administrative departments. All this is attempted by conditioning the grants so that funds are available but for certain purposes which are specified in considerable detail. To take an illustration from the last general appropriation law of the State of Ohio, we read:

DEPARTMENT OF PUBLIC INSTRUCTION

*Personal Service:

A 1. Salaries—

Superintendent	$4,000.00
Assistant superintendent	2,500.00
2 high school inspectors	4,000.00
6 high school inspectors half time	6,000.00
Chief clerk	1,750.00
Examination clerk	1,800.00
2 stenographers	1,440.00
Filing clerk	900.00
Statistician	1,500.00
Messenger and shipping clerk	840.00
88 county superintendents	85,000.00
450 district superintendents	270,000.00
72 normal school supervisors	72,000.00
Total	$451,730.00

*106 Ohio Laws (1915), 699.

Such detail can contribute nothing but confusion when inserted in an appropriation law. It substitutes for expert services comparative ignorance in the organization of departments. The state's experts in their respective fields are the heads of the departments. They are the ones best fitted to judge of the machinery necessary for their work. Certainly the members of the legislature who sit through but a short session, and are comparatively unacquainted with the duties of the departments, can not safely be

trusted to provide an organization for accomplishing the needed work. The assembly can decide what funds are available for the department or service, it can decide what functions it considers of greatest importance, but it is in no position to determine whether fewer inspectors or more equipment are required. This is an administrative, not a legislative, question, and can not be properly solved by a legislative body.

The itemizing of the appropriation law is productive of many difficulties: (a) It divides responsibility. The head of a department should alone be accountable for the economical and efficient conduct of the affairs of his office. Within the appropriation allowed him, he should perform the duties required by law to the best of his ability. He can do this only when he has free rein in the organization of his force for the work it must do; (b) It does not properly care for emergencies. Our state legislatures do not follow the practice of meeting at frequent intervals. The appropriation bills once passed must stand for one or two years just as they are made. No matter how skillfully the estimates may be prepared, unlooked for developments are certain to make some adjustments desirable. But a detailed appropriation law contemplates no such contingency. When difficulties arise funds must be forthcoming from some central contingent account or the state service must suffer because an important function is neglected. In Ohio, the detail with which appropriation laws have been made has required a frequent resort to the contingent fund. Services denied adequate support by the legislature have sometimes been given grants in this way; (c) It produces extravagance. When a saving in one service can be utilized for another purpose, an incentive to economy is provided. When funds must be expended lest balances lapse, there is little motive for economy. But the greatest danger is that an inadequate appropriation will force a department to discontinue an important service. A plan which allows administrative officers to use the funds allotted them with but slight legislative restraint through the appropriation law, but which requires careful planning by the department and a compliance with that plan, is in the long run the most economical.

A reason frequently urged for the insertion of detail in appropriation laws, is that it is necessary to prevent deception on the part of administrative officers. It is apprehended that funds may be

secured from the legislature by urging the needs for one service, but that the grants when allowed may be diverted for other purposes. It has been this practice which has done more than any other to fasten a system of detailed appropriations in our fiscal system.

Were it necessary to rely wholly upon the appropriation law to control administrative officers, the argument for detail in appropriation might rest on firmer ground. But it is one of the poorest methods that could be devised for this purpose, because this gives legislative control of what is essentially an administrative function. The best budgetary plans we have in this country are found in connection with private businesses, but who knows of a successful corporation which employs expert administrators and so hedges about their movements that their skill can not be used to advantage? Our cities furnish our most perfect examples of public budget systems, yet the best models of appropriation ordinances, as found in such cities as New York, Philadelphia, Cincinnati and Dayton, contain no such detail. Reliance is placed rather upon other agencies designed through administrative guidance to effect these economies. The question of the best organization of departments can better be settled through an efficiency bureau coöperating with a civil service commission. A properly conducted purchasing department will check abuses in the purchase of supplies and utensils; and the budget itself rather than the appropriation law is the proper place to exhibit the government's plan.

When the legislature has determined what the state can afford to expend for a given service, the question of planning the most economical use of these funds to accomplish the work which the legislature wishes performed, can best be done by administrative officers. Administrative officers should be required to submit a working program showing with considerable detail how they propose to employ appropriations granted, nor should expenditures be approved for purposes not on this sanctioned program. In case of emergency, it should be possible for the administrative officers to amend their program, if they can show that the funds at their disposal can under new circumstances which have arisen be used to greater advantage in a different way. Administrative safeguards should, however, be thrown about such changes to insure the continued use of these grants within the general purpose of their allotment. Such a plan will encourage rather than prevent

the use of expert planning for the most judicial expenditure of public funds and locate responsibility upon administrative officers for the wise use of appropriations.

Such a budget system will provide in the first place for proper planning; a planning which for each department will provide a program and, when departmental estimates are assembled, will present for the state as a whole a comprehensive outline for the year's work. It will show a correlation between revenue and expenditure and the amount it is proposed to use for one service in comparison with the sums available for other purposes. It will be a plan made out and approved by the state's experts, those who have had experience in the actual administration of the state's affairs and are most familiar with the public needs. Secondly, such a budget system will give the legislature and the general public full information as to the fiscal affairs of the state and will be a means whereby the administrative officers may be called upon to justify their administrative acts and give an account of their stewardship. Plans for the coming year must be presented and approved and submitted to the closest public scrutiny.

It centers responsibility because the administrative officials who must carry out the plan are charged with its preparation. The working plan is one prepared by the responsible administrative official, not by a legislative committee which has nothing to do with carrying out the functions for which funds are provided and may be in ignorance of the machinery most needed for this work. It provides for emergencies. A detailed appropriation law restricts closely the use of funds for a period, sometimes thirty months after the law is passed. It is difficult for even the most skilled administrative officers to plan with such accuracy for so long a period. With new state services, certain planning is impossible. A proper budget system allows a change in the detailed use of funds to meet emergencies as they arise without changing the purpose for which the legislature has allowed the grant. Such a budget system does not allow the legislature to do administrative work, such as providing for the organization of departments, the amount of supplies or material, or specifying kinds to be utilized. It establishes the legislature as a body of approval, rather than of initiation, which determines governmental policies, rather than engages in the work of carrying them out.

The proper budget plan should provide for the established services of the state. The appropriation law should not be utilized for reorganization purposes. When the legislature has established a service or organized a department by the passage of a law through the action of both houses of the legislature and the approval of the executive, such a service should be maintained as long as it is the law. It should not be competent for the executive or one branch of the legislature to destroy the service by failure to provide for its proper maintenance. But an appropriation system which requires the concerted action of the Governor and each house of the legislature at each session to maintain state services is faulty, in that it places the most important legislative functions under the control of any group which can influence the Governor or can control a majority in either house, or in states which require a two-thirds vote on appropriation laws, more than one-third of the membership of either house. Under such a system, the Governor of Wisconsin could have re-organized the state services by the abolishment of the Legislative Reference Bureau, which has done such valuable work in that state. But that this was not the will of the people of the state or their representatives is indicated by the fact that this proposal received the support of but eight of the one hundred and thirty-three members of the two houses. Yet under the system of annual appropriations, where the Governor proposes the budget and the legislature may not provide for services he neglects, or under the plan in vogue in many states with annual appropriations where the Governor may veto items, this department would have been entirely abolished. The plan of annual appropriations places the presumption upon the discontinuance of services, rather than upon their maintenance, but when the regularly constituted law-making authorities create departments, or allot functions, it is reasonable to suppose that it is the popular will that these services be adequately cared for until the law is changed. To carry out such a plan, however, a system permitting continuing appropriations is essential.

Probably the greatest evil resulting from the periodical appropriation plan has not been the abolishing of state departments or services, but the political control which is exercised over them by the threat of such action. There are in our state services many departments designed to be independent of the legislature or the chief executive. The judiciary is supposed to be such an independ-

ent branch. Frequently the controller is chosen by election in order that his actions may be free from executive restraint. Other devices are installed to free semi-judicial and administrative departments from executive dominance. We create bi-partisan or non-partisan boards, provide that the terms of their members shall expire at different times, in order that no administrative officer shall control these departments by virtue of his appointments. It is customary to organize civil service commissions, public utility commissions, public health boards and boards for the control of the state institutions in this way. However, the independence which we wish these departments to exercise is lost in a system where the favor of the chief executive or of a faction strong enough to control one legislative branch must be cultivated. In fact the most insidious form of corruption is found under such a system, because it is so little understood, and influence can be exerted of which the public is ignorant. The virility of the departments given police functions is taken away, because these agencies are afraid to make enemies lest the limited funds placed at their disposal weaken them to such an extent that their usefulness will pass and the justification for their continuance be lost. A public service commission fears to incur the enmity of the railroads or public utility corporations which usually maintain lobbies in our legislative halls strong enough to jeopardize the appropriation upon which the commission is dependent. In a similar way, the activities of agricultural commissions or organizations charged with the enforcement of pure food laws, or departments having other phases of public health work to do, must be shaped so as not to incur the ill-will of those who may be in a position to retaliate through the use of their influence with the executive or the legislature. We have constantly endeavored to keep our universities and larger public institutions of the state "out of politics," but when these institutions must fight for their lives at every session, they are forced into politics in order to maintain themselves. Yet the appropriation systems of many of our states require annual or biennial grants and two-thirds of them attach to this plan the power of the Governor to veto items in appropriation bills, which power ex-President Taft, with his general knowledge of political agencies, thinks "might be made an instrument of very considerable influence."

A system of annual appropriations is faulty again, in that it

does not permit planning over a period of years. The ordinary budget calls for a plan for one or two years. We are learning slowly in this country that great political organizations require, as do great industrial organizations, careful planning over a long period of years. We are awakening to this fact in our cities and are providing for city planning commissions. Every one familiar with the practices of industrial corporations knows that improvements are considered and held in mind forming a program covering a number of years. The expense of administering our large public institutions and the wastefulness due to what appears to be short-sighted policies can be largely attributed to this lack of planning. Consequently an adequate appropriation system must allow those in charge of these institutions to know with some certainty what funds will be available in the near future for the development of contemplated projects.

The objections which are most frequently raised to a system of permanent appropriations are that the permanent appropriations are not taken into consideration when the legislature considers the immediate appropriations of the state, and that appropriations established by permanent laws are too difficult to change. The first objection arises because of the popular error of confusing the appropriation law with the budget, and trying to use this statute as a fiscal plan. The error of such a method has already been pointed out. When the fiscal plan is presented as it should be through the budget documents, no difficulty can be found in noting in this plan what appropriations are already provided for and what still require legislative sanction in order to put the program of expenditures into effect, or where amendments to the permanent appropriation statutes are required. The difficulty of change is more a virtue than a fault, and it is not unreasonable to assume that when the legislature and executive have been convinced of the uselessness of further appropriations, the law authorizing the grant may be amended or repealed as easily as it was enacted in the first instance. Certainly the presumption should be that a state service created by law should be maintained until the law is changed. It should not be competent for any body with less authority than the legislature to nullify the law by refusing appropriations.

This is not a unique or untried plan which is advocated. It [illegible] in many of our states, it is followed for some appropriations

of the federal government and is to be found in certain services provided for by that model of modern budgetary systems, the British budget. The British budget has a number of items, which are permanent charges upon the consolidated fund, and annual grants by parliament are not required. Among such services, we find the interest and sinking fund of the national debt, and salaries and pensions of judges. The existence of such a system in Wisconsin has contributed as largely as any factor in making that state a model of administrative government. The Wisconsin Railway Commission could not have done its effective work had it been subject at each session to the control of those who constitute a minority among the people in the state, but who were frequently powerful enough to control one house of the legislature, or who have been supported by the Governor. Except for the system of permanent appropriations this Commission would many times during the comparatively few years since its creation have been abolished or rendered powerless to perform its functions. The University of Wisconsin could not have maintained its enviable position were it dependent upon annual grants; and the service, which it has so admirably rendered to that state, as well as to the entire country, would have been greatly curtailed. Examples of the evils of the annual appropriation system occur to every one who has been at all familiar with legislative practices in states following this method. We can scarcely expect strong and independent administrative organizations until we can provide some method for supporting them, which will guarantee their maintenance as long as the people of the state are in sympathy with their work.

It is unfortunate that the new constitution of the state of New York, while providing so acceptably for the submission of an executive budget, denies the legislature the right to appropriate funds for a period longer than fifteen months, and gives the Governor so complete control over the actual shaping of the appropriation measure. When such power is centered in one official, a system of permanent appropriations for established services is even more essential to prevent the chief executive from assuming legislative prerogatives through his control over public grants.

In our attempts to better our state government, we have been prone to apply the lessons we have learned in the government of cities. This is a very natural and in many respects a commendable

practice, because the municipalities of this country are far in the van in the crusade for efficient government. They are almost alone among our public bodies in being provided with budget systems, central purchasing agencies, standardizing bureaus and similar devices designed to secure a better government at less cost. But when institutions which have proved effective in cities are imitated in the state, it is important that differences between city and state governments be noted. The constituency of the city administration being much more contiguous than that of the state, can more easily inform itself of the actions of the executive and legislative officials and pass an intelligent judgment upon them. These public servants become more responsive to public opinion because public opinion is more definite and ascertainable. Opportunity for conferences between citizens and officers is greater and adjustments more easily made. The city council meets frequently, usually weekly and can be summoned for extra sessions within forty-eight hours with little additional expense. In most of our states the state legislature meets but once in two years and adjournment is usually taken after a short session for a two month period. Special sessions are inconvenient and expensive. The legislative body of an American city is with few exceptions unicameral and though this form has been considered for our state governments, it has as yet been nowhere adopted.

But what is possibly a more important distinction between state and municipal government lies in the widely different powers which the legislative departments of these governmental units possess. The legislature of a state is concerned, perhaps chiefly, with the enactment of laws affecting the rights of individuals in their relations with each other, or with the state. Secondly, it possesses the power, within the restrictions of the constitution, of organizing the administrative departments of the state and establishing machinery for the performance of governmental functions and determining what program of activity shall be followed. Thirdly, it provides for financing state services, decides by what method public funds shall be raised, how much is needed and the purposes for which the public money shall be used. The authority granted a city council, or other legislative organ of a municipality, is much more restricted. Its power to pass ordinances affecting personal rights is of too restricted a character to be comparable with the power lodged with a

state legislature and is chiefly administrative in character. The city council usually has relatively little to do with the administrative organization of the municipality. The only limitations on the state legislature are those found in the constitution; the city council is restricted by the city charter and by state laws. These latter with considerable more minuteness provide for the administrative organization of the city and confer powers and duties on these departments for which no action by the legislative authority of the municipality is required. Only state law, or, in most cases with home-rule charters, action by the people, can effect a change. When, therefore, an executive officer presents to the state legislature a budget, the body from which appropriations are asked is the one which can adopt policies changing completely the form of administrative organization or the functions of the departments, it can take away or add to their powers and duties. Until the extent of the change in administrative organization and functions is determined, accurate budget planning must wait. But with the preparation of the city's fiscal program such a difficulty is seldom confronted and budgetary procedure becomes far less complicated. Consequently, in endeavoring to shape systems of state organization from our municipal experience care must be taken that institutions be properly adapted.

The last administration in the state of Ohio came into power with an extensive program for legislation calling for administrative re-organization. The functions of many isolated departments dealing with agriculture were focused in a newly created agricultural commission. An industrial commission was organized to deal with affairs affecting primarily industrial relations. The Public Utility Commission was re-organized and given greater powers, and the Civil Service Commission was created pursuant to constitutional amendment. Even though his influence over the legislature was very great, the Governor was not entirely successful in prosecuting some of his original re-organization plans, and it was uncertain until the legislative days drew to a close just what form some of the administrative re-organization laws would take.

The present administration had an extensive program for re-organization. It wished to change the form of the Civil Service Commission, the Agricultural Commission and the Liquor License Commission. Yet the fate of the measure organizing this last Com-

mission was determined the last day of the session, and the re-organization plans for the other departments were pending until late. In Wisconsin, the Governor had plans for combining all educational institutions under a single board of education, and of radically changing the Tax Commission, yet he was unable to secure legislative approval of this program. It should not be competent for the Governor to force such a re-organization by his method of compiling the budget, nor should he be given such power over legislation as this control over appropriations accords him.

We have justified an increase in executive power, because we believe that in this way, we can locate responsibility, and that knowledge of this fact will deter officers from the commission of acts which will not meet with popular approval. We have admired the parliamentary system of government because it is "responsible." For every official act, censure or praise may be definitely located. But the responsibility of the British government goes farther than this. In case any act is contemplated by the British government, which it is thought may not meet with popular approval, the question is determined immediately by an election. Should it eventuate that the proposed action of the government is not supported by the people, this fact is at once apparent and the new government which results will shape its course on this very question in conformity with the popular will. The people are thus provided with machinery to prevent the government's action and so avoid the consequences of what it is believed will prove an unfortunate policy.

In our government, however, location of responsibility means fixing of blame. We cannot determine, except in some instances through the use of the referendum, what will be the popular judgment on any issue. We must wait until a periodic election presents opportunity for approval or censure of official acts. Then the judgment expressed is not a judgment formed upon any single issue, but an estimate of the actions of the executive of which we approve and of those which we censure. We form our judgment by determining the relative weight of these issues. Irreparable damage may have been done before the person "responsible" may be checked and the accounting to which he is subjected is usually limited to jeopardizing the chance of his reëlection should he again stand as a candidate before the same constitutency. A business organization could not operate under such a system. While it holds

its officers responsible, it does not give them power to administer corporate affairs in violation of the desires of the stockholders. A control is exercised in time to prevent abuses. Dependence is not placed on possible punishment for mistakes.

The development of most of our political institutions has come about by an adaptation of governmental devices which seem to operate elsewhere in an acceptable manner. But we should incorporate these innovations only after a careful study convinces us of their acceptability, and a close analysis of our own institutions proves them capable of being patterned after the model we admire. We cannot safely rely on temporary appropriations in this country even though that practice may be followed in certain countries which have responsible ministries. Nor can our officials be made responsible in that same sense until we make a rather complete change in our plan of government. But it is possible to install in our state and federal governments, systems which will perform adequately the proper functions of a modern budget without subjecting us to the dangers of such ill-advised reforms as have been noted.

There is no more important reform than the installation of an adequate budget system in our state governments. Only in this way can the affairs of government be conducted efficiently, economically and in a way to permit of an orderly development. That a budget system will prevent the constant increase in the cost of government, in accordance with a belief frequently expressed, few who observe the constantly expanding functions of government dare hope. It will, however, require that these developments be made in accordance with a well considered plan; a plan prepared by those most familiar with the government service and approved by the representatives of the people acting with full information and with the entire program of the state's needs in view. But these advantages will be secured at too dear a price if we confer initiative powers on our law-making bodies, or fail to protect the great institutions and services of our states from those who, representing a minority of the people, would seek to coerce them by controlling their funds. We must guard against these dangers while endeavoring to secure the advantages which may accrue through a reform in our fiscal plan. The proper function of the budget is not the reorganization of the state services, but the presentation and adoption of a plan in fiscal affairs which will insure the most judicial use of the resources of the state for the purposes most desired by the citizens of the state.

THE BUDGETARY PROVISIONS OF THE NEW YORK CONSTITUTION

By Charles A. Beard,

Professor of Political Science, Columbia University.

It may be truly said that the New York Constitutional Convention of 1915 marks a new epoch in the history of budgetary procedure in the United States. The general subject of financial administration has, of course, received serious consideration at various times and places, and public attention has occasionally been aroused by particular fiscal scandals such as those which were attacked by Governor Tilden of this state more than a generation ago. Sometimes, also, a constitutional convention has bestowed a passing glance upon the fiscal problem while wrestling with the mighty matter of the separation of powers; but never before has the whole question of financial administration in all its ramifications and in all of its implications received a thoroughgoing and systematic consideration at the hands of a constituent assembly. Never before has there been a responsible citizens' agency, like the Bureau of Municipal Research in the city of New York, equipped with a staff of men trained in finance, accounting and administration and prepared to make for a convention long and searching investigations into all of the intricacies involved in budget procedure. In other words, the conditions surrounding the formation of the New York constitution of 1915 were such as to guarantee a more thoughtful review of finances than ever before in the history of state constitution-making in the United States.

Those who are familiar with European budget practice, who have read their Lowell, Stourm and Duguit, know very well that the budget is no simple matter of bookkeeping—that as Gladstone said—"budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relation of classes, and the strength of kingdoms." The budget is the very heart of the governing process; it involves fundamental problems in administrative organization, in public policy, in legis-

lative responsibility, and in political leadership. Sound budgetary procedure cannot be injected into the hopelessly disorganized governments of American commonwealths. It requires a thoroughgoing reconstruction, even of the very elemental parts of the government framework. .

It was in recognition of this fact that the Bureau of Municipal Research in preparing to make recommendations to the New York Constitutional Convention not only took into consideration the problems of appropriations, debt, sinking fund, deficits, and taxation, but also began at the same time the most painstaking and minute study of administrative structure that has ever been made in this country. This administrative study was undertaken in connection with the state Department of Efficiency and Economy and resulted in the publication of a truly monumental description of the organization and functions of the New York government. This volume, which was prepared for the state Constitutional Convention Commission, was issued early in 1915.[1] After its publication, the Bureau of Municipal Research prepared a critical "appraisal" of the system from the point of view of efficiency, economy, responsiveness and responsibility in government. In this second work the Bureau pointed out the necessity of establishing any sound budgetary law and practice upon a legislative and executive organization which would secure official responsibility for public policies and public work.[2]

Having thus laid both the fact and the philosophic basis for a scientific budget system, the Bureau prepared a series of bills embracing the following features:

1. The appointment of the heads of the great administrative departments by the governor, although several officers, owing to political exigencies, are left elective;

2. The establishment of a governor's cabinet, composed of the executive heads of the administration under the governor as chief executive;

3. The organization of a governor's staff to serve as a research and investigating agency for the chief executive;

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[1] The volume is entitled *Government of the State of New York; A Survey of Its Organization and Functions.* A limited number of copies may be secured from the Bureau of Municipal Research for $1.00.

[2] Published under the title of "The Constitution and Government of the State of New York." May, 1915, issue of *Municipal Research.* Can be procured from the Bureau for $1.00.

4. The initiation of the budget by the governor;

5. The right of the governor and his representatives to appear before the legislature to submit, explain and defend administrative measures;

6. In case of the refusal of the legislature to pass such measures, the right of the governor to dissolve the legislature and submit the issue to the voters;

7. A constitutional procedure for locating responsibility and for giving publicity to the discussion of all issues which arise, whether they pertain to administrative measures or the bills of members. In other words, to do away with invisible government by establishing visible government.

These measures, the representatives of the Bureau supported at the hearings before the Constitutional Convention committees and the principles thus laid down, were with some exceptions, elaborated and defended by a number of gentlemen eminently qualified to speak upon financial administration.[3]

It was not expected that the Convention would accept this somewhat radical program in its entirety, but Article V of the new state constitution, while omitting two or three fundamental matters, includes such a large part of it that it may be justly said to constitute the beginning of a new era in state fiscal administration, whether adopted or not. This article falls into five main divisions.

In the first place, it vests the initiation of certain parts of the budget in the governor. It expressly excludes from his control, however, the legislative and judicial appropriations. This much is clearly set forth but there is considerable difference of opinion as to the exact limits of the remainder of the state appropriations which are to be initiated by the governor. The opening paragraph of the article in question provides that the head of each department of the state government shall submit to the governor

itemized estimates of appropriations to meet the financial needs of such department, including a statement in detail of all moneys for which any general or special appropriation is desired at the ensuing session of the legislature, classified according to relative importance and in such form and with such explanation as the governor may require.

Whether this provision would cover all of the appropriations coming under the general jurisdiction of the several departments, including special and local appropriations as well as those for purely departmental purposes, is now a matter of hot debate. The friends

[3] The records of these hearings have been published by the Bureau of Municipal Research in two volumes—"Budget Systems" and "State Administration," Nos. 62 and 63 of *Municipal Research*, to be secured from the Bureau at $1.00 each.

of the proposition contend that under it the governor is responsible for covering in his budget substantially every item which does not specifically fall within the province of the legislative or judicial appropriation.

In the second place, Article V provides that the governor shall take the estimates (which are to be prepared for him by the departments on or before the fifteenth day of November in each year), hold public hearings thereon, revise them according to his judgment, and then submit to the legislature, on or before the first day of February, a budget containing a complete plan of proposed expenditures and estimated revenues. In addition, it must contain all

estimates so revised or certified and shall be accompanied by a bill or bills for all proposed appropriations and reappropriations, clearly itemized; it shall show the estimated revenues for the ensuing fiscal year and the estimated surplus or deficit of revenues at the end of the current fiscal year, together with the measures of taxation, if any, which the governor may propose for the increase of the revenues. It shall be accompanied by a statement of the current assets, liabilities, reserves and surplus or deficit of the state; statements of the debts and funds of the state; an estimate of its financial condition as of the beginning and end of the ensuing fiscal year; and a statement of revenues and expenditures for the two fiscal years next preceding said year, in form suitable for comparison. The governor may, before final action by the legislature thereon, amend or supplement the budget.

In the third place the measure provides for a system of interpellation to be elaborated by legislative action. The constitution stipulates that the governor and the heads of all departments shall have the right, and it shall be their duty, when requested by either house of the legislature, to appear and be heard in the matter of the budget and to answer all inquiries relevant thereto.

In the fourth place the legislature may not alter an appropriation bill submitted by the governor except to strike out or reduce items therein. When the bill has been passed by both houses, it becomes a law without further action by the governor, except that appropriations for the legislature and judiciary (which are included by the governor in his budget as a matter of form) are subject to his veto in the regular course.

In the fifth place, the power of initiating "further appropriations" is vested in the legislature, but it is provided that such appropriations shall not be considered until the governor's entire budget is disposed of. Moreover, it is stipulated that further appropriations shall be made by separate bills each for a single work

or object, and that such bills shall be specifically subject to the governor's veto.

In the sixth place, as a means of checking somewhat the time-honored practice of log rolling, section 21 of Article III dealing with the legislative power provides that:

> No public moneys or property shall be appropriated for the construction or improvement of any building, bridge, highway, dike, canal, feeder, waterway or other work until plans and estimates of the cost of such work shall have been filed with the secretary of state by the superintendent of public works, together with a certificate by him as to whether or not in his judgment the general interests of the state then require that such improvement be made at state expense. This section shall not apply to the contributions of the state to the cost of eliminating grade crossings or to items in the budget for the construction of highways from the proceeds of bonds authorized under section 4 of Article IX of this constitution, or section 4 of former Article VII thereof as in force on the first day of January, 1910.

It is by no means clear what this provision implies and how far it will act as a means of control over the "pork barrel."

Naturally these provisions of the new constitution are hotly attacked, particularly by those who believe that every state officer (including probably the janitor of the state capitol) should be elected by popular vote. It is contended on their behalf that this measure makes the governor a czar. Other opponents of the constitution, however, take the ground that Article V will be futile because it gives to the legislature full freedom of initiation after the governor's budget has been acted upon. The representatives of this group hold that the governor can thus escape responsibility and that pork barrel politics will flourish as of old. Most of the friends of the provision in question freely admit that it does not go far enough and that it does not assure absolute responsibility, but they do hold that taken in connection with a reorganized state administration, the new article makes possible the establishment of a degree of responsible government hitherto unknown in American politics.

CALIFORNIA'S STATE BUDGET

By John Francis Neylan,
Chairman, State Board of Control of California.

There is no provision in California's constitution for a budget. There was no big campaign made to bring about this reform. It just came quietly and unobtrusively. The man who would attempt to abolish it now and return to the old log-rolling system of making appropriations would be adjudged politically insane in California.

Governor Johnson took office in January, 1911, the legislature convening simultaneously. In March a mass of appropriation bills was placed before the Governor. Following his usual custom he took up each bill, read it carefully and asked for the data showing the need of the particular appropriation. He also asked for a statement of the state's revenues, and a comparative statement showing to what the revenues were being devoted. He wanted a list of all appropriation bills introduced; in fact he wanted to know all about the state's needs and the state's revenues.

The Governor wanted a great deal of information but he did not get it. Because nothing of that kind had ever been compiled the chief executive was forced to blindly put his name to millions of dollars' worth of appropriations.

"Such a proceeding as this is a disgrace to the people of an intelligent commonwealth," was the Governor's comment. "It most certainly will never occur again."

It has not occurred since.

In June, 1911, the newly created State Board of Control, vested with far greater powers than other boards of control in different states, took over the general supervision of the business and financial affairs of the state. This board had absolute control of the expenditure of the appropriations made by the legislature for the forty-three state departments and twenty-three state institutions.

With its ample powers and close contact with all parts of the government the State Board of Control studied the financial needs

of each in the ordinary course of business. In July, 1912, the first step was taken towards putting this study into practical use.

The Board of Control notified all state departments and institutions to make a careful estimate of their needs for the next two fiscal years, California's legislature meeting biennially. These estimates were forwarded to the Board of Control. They were checked carefully with data accumulated by the Board of Control through the operation of what is known as its "preaudit system," which is nothing more or less than a monthly departmental budget system.

The Board of Control then invited the coöperation of the State Controller and proceeded to give each department and institution a hearing on its particular needs and estimates. All estimates for support of hospitals, for instance, were before the board so that comparisons could be readily instituted. So also in the case of normal schools, prisons, reform schools and other institutions. The estimates of departments also showed comparative salaries paid and so forth.

Members of the Board of Control visited the institutions and departments to secure first hand information. In the matter of buildings the State Engineering Department was called upon for estimates.

All financial needs of state institutions and departments were assembled in the Board of Control office prior to November 15, 1912. A statement of estimated revenue was then secured, and the Board of Control with the State Controller sat down to draw California's first budget.

This budget was finished and placed in the hands of the Governor on December 15, two weeks before the legislature convened. Copies were sent broadcast throughout the state to libraries, civic and commercial bodies and the public generally.

Announcement was made that the budget was a statement of the financial program of the administration to be taken up at the coming session of the legislature, and that if anyone had objection it should be urged before the legislature.

The legislature convened and for the first time in the history of the state its members had a chance to vote intelligently on appropriation measures.

The accepted method of securing appropriations under old conditions in California as elsewhere was particularly vicious.

Under the old system the legislature met and simultaneously the heads of departments and institutions left their posts and traveled to Sacramento. Here they stayed throughout the legislative session, begging, wheedling and whining for money enough to properly transact the public business. Of course they promised jobs to friends of legislators in return for votes; of course they promised to aid some constituent of a senator who happened to be in the flour or coal business; of course they neglected their work for three months or as much longer as the legislature lasted.

During the 1913 session of California's legislature the head of each state institution and department came to Sacramento when called to appear before the finance committee of the senate and ways and means committee of the assembly. They usually arrived in the afternoon, appeared before the committee in the evening to answer any particular questions which had been raised on the budget recommendations and left Sacramento the following morning for their respective residences. No Promises of Jobs or of Anything Else Were Made for the Simple Reason that the Governor and Board of Control Had Assumed Responsibility for the Entire Budget and the Heads of Departments and Institutions Realized that the Securing of Proper Appropriations Was no Longer a Contest in Trickery and Ward Heeling Strategy.

When the time came for appropriation bills to be passed to the executive for action, Governor Johnson made California's budget a permanent institution. He said:

> Those appropriations which have been studied and approved by the Board of Control and State Controller, acting as a budget commission, will receive executive sanction. Those which have not been approved by the budget commission will fail. Of necessity no Governor could personally in the time at his disposal examine the justice of all these financial bills. Common sense demands a business-like and scientific budget. We have one, and, mark well what I tell you, the time will never come again in your lifetime or mine in California when any politician will dare put this government back on the old log-rolling basis.

At the 1915 session of the California legislature further steps were taken to advance the budget idea, and perfect the machinery of presenting it.

At the present time while the Governor and Board of Control assume full responsibility for the budget, it is presented only indi-

rectly by the Board to the legislature,—that is, through the medium of committees. It would not be surprising at the next session of California's legislature to see the Board of Control appear before each house of the legislature in committee of the whole and in its entirety and in detail there defend the budget which it will have introduced.

The acceptation of the budget in California was so prompt that all budget discussion has been confined to matters of method in compilation and presentation of data.

One objection is frequently heard. That is that there is no budget provision in California's constitution. This is a defect which undoubtedly will be remedied in the near future. However, for the present we have a budget sustained by a public opinion that would brook no interference with its operation.

THE ILLINOIS BUDGET

By Finley F. Bell,

Secretary, Illinois Legislative Reference Bureau.

While budgetry has been quite extensively discussed in Illinois during the last few years, it may still be said that there is a paucity of information on the subject. Much good, however, has resulted from the discussion, and the expenditure of public money is being studied by administrative officials, members of the legislature and the public with greater care than ever before.

The detailed budget as submitted to the legislature by the Legislative Reference Bureau at the convening of the Forty-Ninth General Assembly of Illinois was a distinct step forward. It met with the approval of the individual members of the legislature and its usefulness was manifested from the outset. Room for improvement, however, is plainly recognized. The demand for the budget authoritatively recommended by the executive that will embody all of the financial requirements of the state's service, and that can be enacted into law before the week of adjournment of the session seems general.

The Old Methods

To discuss a budget understandingly, some thought should first be given to the methods of making appropriations formerly employed, and indeed not entirely discarded at the last session of the Illinois legislature. Heretofore, the heads of the several departments, including constitutional officers, heads of boards, bureaus, etc., and even such quasi-public officials as have jurisdiction over the several agricultural agencies, submitted their fiscal needs through the members of the legislature. When the appropriations committees were appointed, they took up the matter of appropriations with the department heads and sought to ascertain what moneys were required to conduct the departmental affairs until the expiration of the next biennium. The estimates as given by the department heads were generally based upon the amounts appropriated by the previous session and the experience of the

department. Little, if any, thought was given the question of how the money was to be actually spent. No classification of the amounts asked for was sought or disclosed. In most instances salaries were included in lump appropriations, generally containing but one or two items for the entire two years' work of each department. The requests usually were in excess of the amount appropriated by the preceding legislature, although the purpose of such an increase was seldom disclosed, except possibly that in a hearing before the appropriation committee the head of the department might personally explain why advances were necessary. The hearings were rarely attended by all the members of the committee and no record of the proceedings was kept which would afford the members of the committee who happened to be absent any specific information as to why changes were made. The disadvantages of the system consisted not only in the matter of granting unnecessary advances in appropriations in some cases but also in cutting down or in failing to advance allowances in other cases, due largely to whether the department head in presenting his request was persuasive and forceful in manner.

The Practice as to the Charitable Institutions

The Board of Administration, which has control of the eleemosynary institutions of the state, twenty in number, filed with the Appropriations Committees a statement of the requirements of the several institutions based on the *per capita* cost, together with requests for additions and betterments in the way of new buildings, acquisitions of land, etc. For the purpose of such statement a member of the Board of Administration, known as the Fiscal Supervisor, would, before the convening of the General Assembly, visit all the institutions and check up, so to speak, the estimates of the department heads, approving or disapproving according to the general policy of the board. The original estimate, however, of the department head, together with the fiscal supervisor's recommendation and the approval or disapproval of the Board of Administration would, after the convening of the General Assembly, be filed, and the needs of each institution set forth on a *per capita* basis. There were no detailed statements, such as scientific budgetry embodies, contained in the Fiscal Supervisor's report. Later on the appropriations committee would afford each institutional head a

hearing. Many times the superintendents of the institutions for the insane and the charitable wards of the state were obliged to leave the work of administering the affairs of these institutions to their subordinates and spend days and sometimes weeks waiting to appear before the appropriations committee in Springfield. These hearings were always informal and it will be conceded more or less perfunctory. Nothing in the way of uniform statements were required and frequently when details were offered, what would appear as indispensable for one institution might be lightly passed over as unnecessary when found in another report on account of the manner in which the request was made.

To quote a very eminent physician who for many years had charge of one of our hospitals, "the matter of securing adequate appropriations was a constant struggle, the best mixer got the best appropriations, but not until the legislature had adjourned would we really know what had been awarded the institutions." Owing to geography or other circumstances, the requests of some institutions were allowed even when the Board of Administration and the fiscal supervisor had disapproved of certain items, while other allowances were not granted even when the approval of the board and the sanction of the fiscal supervisor had been given. The same discomforts that the institutional heads had to undergo were more or less the experience of the heads of most of the other departments. Their requests were frequently presented to the appropriations committees, or at least found embodiment in the omnibus bill, as the general appropriation bill is popularly known, through the good offices of a friendly representative. Under such a system expenditures were not, of course, compared with the probable revenues that would accrue for the same period for which appropriations were to be made. Such conditions naturally tended to increase expenditures and were ill-calculated to guard against unnecessary appropriations. Lack of responsibility, or rather a failure to place responsibility, was the chief weakness of the system.

Logical Result

Considering the very meager data that the appropriations committee was able to assemble and the still more meager information it was able to impart to the members of the legislature, and realizing that the completed bills were seldom presented until the

closing days, more often the closing hours of the session when the members were tired out from sittings lasting perhaps six months it is not strange that there was little inclination to question the recommendations of the committee. In fact, the general attitude of the assembly necessarily was manifested in a strong desire to wind up its affairs, pass the appropriation bills and go home. The logical and inevitable result was unsatisfactory appropriations. The riotous scenes that were sometimes pictured in the press as marking the closing days of the session, when millions of dollars were appropriated amid scenes of levity, were largely the result of this lack of system. The method in vogue encouraged the members to leave the adjustment of the state's fiscal difficulties to the next general assembly which would in turn continue to make appropriations upon the same haphazard basis, ending by imposing a similar burden upon the succeeding general assembly. The appropriations as passed by the Forty-Eighth General Assembly in 1913 were $39,045,457.93 of which the Governor vetoed $1,130,000. The amounts appropriated by the Forty-Ninth General Assembly which has just adjourned were $48,336,297.52, the Governor vetoing $2,322,096.42.

The Budget Movement

In the movement for system in governmental expenditures federal and state executives have urged the adoption of the budget system and pointed out the desirability of having the fiscal condition of the state fully presented to the legislatures when they convene. They have also urged that responsibility for the budget be placed upon some certain officer, usually the Governor, or appropriate department so that all of the fiscal data necessary might be collated and submitted to the legislature with adequate explanations and recommendations. The advantages of such a system may naturally be expected to flow more from the proper direction and application of the public funds than from the reduction of appropriations. Liberal, unrestricted appropriations make for extravagance while systematic application and administration of the same funds would produce valuable results and prevent useless expenditures. There may never come a time in this or in any other commonwealth when the cost of maintaining its institutions will permit a reduction in the appropriations, but this state and all other states will, no

doubt, find means of getting more for their money. It is not so much the amount of money spent but rather the manner and purpose of such expenditures that is important. If this information, together with a fairly accurate estimate of the income of the state, be placed before the legislature, appropriations may be made on a scientific basis. As officers and departments become familiar with the system their requests when based upon an audit which will disclose conditions, and an accounting that will exhibit the cost of maintenance, should require but little modification other than the fitting of expenditures to income.

The Illinois Situation

The method of financial legislation in Illinois previous to the Forty-Ninth General Assembly was as full of confusion and as unsystematic as that of most of the other states. The difficulty was so well recognized that the previous legislature adopted an act creating the Legislative Reference Bureau and assigning to that bureau the duty of preparing, printing and distributing a detailed budget for the use of the General Assembly. This budget was to be made up of the requested appropriations which the officers of the several departments of the state government reported to the bureau as required for the biennium for which appropriations were to be made, together with a comparative statement of the sums appropriated by the preceding general assembly for the same purposes. Several months before the legislature convened, the bureau set about to comply with the new enactment. So far as a comparative statement was concerned, this was a rather difficult matter for the reason that most of the previous appropriations had been in lump sums or limited to very few amounts. There was no itemization as to personal services and the moneys that were placed at the disposal of the Board of Administration for the conduct of the charitable institutions of the state were upon the basis of ordinary operating expenses, ordinary repairs and improvements, and ordinary care and improvements of grounds with a special appropriation of over two and one-half millions for a variety of items. These were principally in the nature of additions and betterments, such as an employees' building at the Elgin State Hospital requiring $26,000, a cow barn at Kankakee, $15,000, a contagious disease building, $10,000, a coal shed at Jacksonville, $6,000, a building for women

employees at Watertown to cost $50,000. There were no supporting statements in itemized form showing just how these amounts were arrived at and no means that the legislature could conveniently employ to ascertain the necessity for these expenditures or, for that matter, to know that these amounts were adequate for the purpose intended. It should be said, however, that the General Assembly made no mistake in complying with the requests of the Board of Administration, whose efficient management of the different state institutions under its direction is generally recognized.

The Babel of Bills

There were ninety-three appropriation bills enacted by the Forty-Eighth General Assembly. One, known as the "State Officers' Roll," was in the amount of $2,600,000, to pay the salaries of the state officers and the officers and members of the next General Assembly. Under the constitution this bill must contain no other appropriation or provision. As to this particular bill members of the legislature may or may not have known how the amount was arrived at, who were the state officers or what the rates of compensation were. A bill in chancery is now pending in the Circuit Court of Sangamon County raising some of these questions. The omnibus bill, to provide for the ordinary and contingent expenses of the state government, carried appropriations for ninety-seven different departments and purposes with only a meager itemization of the amounts for salaries, equipment, supplies, etc., and the appropriations were generally made in a lump sum. Comparison, therefore, of estimates as required for the present fiscal period with appropriations for the same purpose made two years before was virtually impossible.

The task of constructing a budget was further complicated by the fact that accounting in the different departments and institutions of the state was not conducted on any uniform basis. The methods employed were generally evolved with the economic and financial development of the different departments and institutions. While it would perhaps be impossible to find a single department head who would admit that the method employed in his department produced inefficiency, permitted dishonesty or tended to waste,—and possibly, the means employed were adequate for the individual department,—the fact remains that accounts were not standardized.

There was no standard system of keeping accounts and no uniformity,—at least none was disclosed that would enable the members of the legislature, during the short period of a legislative session, to ascertain costs and become familiar with classifications and other matters necessary to intelligent action.

The Visiting Committees

In order to familiarize themselves to some extent with the conditions at the state institutions, the expedient was adopted of appointing a committee of legislators to visit the different institutions. Such tours of inspection were necessarily hurried and while, no doubt, valuable as a matter of regulation, were, perhaps, not very satisfactory as a method of arriving at financial needs. Such visits and the hearings alluded to were, however, the only means of information the legislators had.

The New Way

Illinois, by the act of 1913, providing for the preparation of a budget, has enabled the legislature to avoid the difficulties above mentioned, to have estimates examined with care and deliberation and to become conversant with the necessity for and purpose of appropriations as well as to make at least some comparison between expenditures and income.

It is not to be inferred that the General Assembly has abdicated or surrendered any of its powers over appropriations. It has simply perpetuated its activities. The Legislative Reference Bureau is merely an arm of the legislature designed to pursue part of its work even though the legislature be not in session. Heretofore, with the exception of the case of special committees or commission, the legislature died with *sine die* adjournment. Now it has permanence and perpetuity in the Legislative Reference Bureau which is composed of the chairmen of the appropriations and judiciary committees of each house with the Governor as chairman. Much of the work of collecting, compiling, classifying and comparing appropriations that heretofore devolved upon the appropriation committees and had necessarily to be hastily done, admitting of but superficial examination may now be done with care and deliberation by appropriate agents or representatives authorized to act as a bureau for that purpose.

Of course, the General Assembly is in no way bound by the bureau. It is at liberty to ignore anything or everything done by it, but it is equally at liberty to make use of all or any part of the bureau's work and of any and all data, kept on file by the bureau. On all obscure or controverted points such data within immediate reach of the legislature is obviously of great value.

The Budget in the Making

In taking up the work, the Legislative Reference Bureau prepared a budget classification and rules of procedure for the convenience of the officers and heads of the several departments in filing estimates of appropriations which their departments required. Classification under the following general heads was suggested: "Salaries and Wages," "Supplies," "Equipment," "Material," "Contract and Open Order Service," "Additions and Betterments," and "Fixed Charges and Contributions."

In trying to effect the standardization of salaries so far as appropriations were concerned, it was endeavored to have the estimates show the present rates of salaries, to distinguish between new positions, to show, where possible, the classification of the state civil service commission as it effected salaries and wages, to include full or partial maintenance at institutions if allowed, and to indicate whether compensation was on a per diem basis or of a temporary nature.

"Supplies" was subdivided into food supplies, veterinary supplies, fuel supplies, office supplies, etc.

"Equipment," into office equipment, household equipment, medical and surgical equipment, live stock equipment, general plant equipment, etc.

"Material" was construed to include articles of every nature used in the reconstruction or repair of property.

"Contract or open order service," to include repair items, transportation, traveling expenses, expressage, communication, etc.

"Additions and Betterments," to include such estimates as were for new buildings or permanent improvements, etc.

"Fixed Charges and Contributions" was intended to cover appropriations to the different agricultural agencies such as the horticultural societies, beekeepers' associations, etc., and also to premiums for state fairs; rewards for the apprehension of fugitives from justice.

Classification, Difficulties

From the first it was apparent that the classification would have to be very general and that the matter of obtaining anything approaching an accurate estimate of the requirements of the different departments would have to be worked out with much patience and care and with the active coöperation of the different department heads. The estimates were filed with the bureau sixty days prior to the convening of the General Assembly.

In instances modification and re-classification were necessary and much correspondence with the departments and institutions was required before the estimates could be sent to the printer. Nevertheless, the budget was ready in time for the legislative session and every member of both houses had a complete copy for use during the entire session. While the law imposed no specific duty as to showing receipts or probable income for the period for which appropriations were to be made, such a statement was included. How nearly the budget compared with the actual appropriations may be seen from the following figures:

The total amount of departmental estimates was $45,404,602.30; the total amount appropriated was $48,336,297.52; of this amount as shown before, the Governor vetoed $2,322,096.42, leaving the net appropriated amount $46,014,201.10.

Much difficulty was experienced in trying to induce the department heads to adopt the classification submitted, especially the item as to salaries and wages. Some of the departments have on their present rolls, clerical and stenographic help, the salaries for which have been fixed by statute, and the custom has been to include such employees in the so-called state officers' pay roll. In the itemization of these positions, in some instances, increases in salaries were requested, and although it was obvious that no change could be made in the rate of compensation, unless authorized by law, nevertheless estimates were filed providing for these increases. The printed budget or detail of estimates specifically revealed this complex situation. Sometimes several lines were necessary in order to make the exhibit intelligible, and as for comparison with previous appropriations, which were usually made in lump sums, that was almost impossible.

Our classification, as above stated, was very broad. We presumed that many articles would be shown in the estimates, not

covered by our classification, but not in a single instance do I recall that any items were submitted other than those enumerated in the classification. Requests for supplies, material, equipment, etc., required considerable revision in the bureau before submission to the legislature but for a first attempt a very good showing was made. Additions and betterments, or estimates for new buildings, contained practically no information as to why the expenditure was necessary or how the amount requested was arrived at and there were no supporting statements or drawings from architects or engineers.

Most of the department heads seemed to fear that if the appropriations were made upon the basis of the estimate as filed, a great hardship would be heaped upon them and that they would be unable to exercise properly the functions of their several offices. They felt that no elasticity would be permitted and that the system was too rigid; that it was impossible to predict the needs of the departments for a two year period, and that inasmuch as no voucher classification scheme had ever been adopted, there were no means of comparing the estimates with past expenditures. Later when hearings of the appropriation committees were held this argument seemed to hold good because the appropriations were enumerated in the bills in a lump fashion, or many of the items were grouped, which permitted the elasticity so much desired by the departments.

Budget Disclosures

The budget, however, did have the effect of revealing the lack of uniformity, both in compensation that existed in the different departments and in matters of accountancy. It also disclosed the lack of co-relation in the different departments, particularly the duplication of functions.

Included in the budget or detailed estimates was a statement showing the income for the last fiscal year and the probable income for the next biennium. This was based upon the revenue that would accrue from the present property valuation and tax rate and also from sources other than the general property tax, such as fees, licenses, etc.

A summary of the estimates for each department was also included. Where an itemization for salaries and wages did not follow the classification which we submitted, the monthly pay roll was printed as a matter of information. All in all, the legislature at

its convening had for the first time a fairly adequate idea of the fiscal needs of the state.

In his message to the Assembly, the Governor, while urging strict economy, called attention to the budget or detailed estimates that would be filed by the Legislative Reference Bureau. It was the first attempt made by any Governor to comply with the constitutional provision which requires that he shall, at the commencement of each regular session of the General Assembly, present estimates of the amount of money required to be raised by taxation for all purposes. Perhaps this was more or less impossible heretofore especially with a new Governor, but the organization of this bureau seems to be ideal so far as this situation is concerned.

Many suggestions might be offered in the way of betterment, but most of the improvement that may be attained will have to be worked out along conservative lines with much patience and education, avoiding at all times usurping the prerogatives of the committees of the General Assembly, composed of the duly elected representatives of the people. Any assistance that the bureau may render in the way of preparing a scientific budget should always be considered as information furnished, never as a policy or in the spirit of dictation or suggestion.

Centralized authority is being generally advocated in the matter of submitting estimates and locating responsibility for appropriations. The Illinois method seems to provide both. This bureau is practically a continuing committee of the legislature. The Secretary and employees of the bureau are mere clerks for the General Assembly, engaged during the recess period in accumulating data and information for the use of that body when in session, and for the individual members, state departments, and the public, upon request.

Under this system the Governor, the Assembly, and the bureau can coöperate with the result that estimates may be submitted with harmony and a complete understanding. The guessing element that so largely enters into the making of appropriations should be eliminated as much as possible. There can be no scientific budget that is formulated upon mere speculation. The department heads should know, if there is any one that can know, just what the needs of their departments will be. When that knowledge is properly presented there should be no desire upon the part of the legislature to change the estimate, if the fiscal condition of the state will permit the expenditure.

With very little change in the present statute the work of the appropriations committee of both houses can be greatly reduced. The budget submitted by the bureau can truthfully be said to have originated in the General Assembly. Hearings on appropriations are unnecessary, unless the appropriations are questioned, or where some unlooked-for contingency may arise. Public hearings on the budget are desirable and this with the proper presentation of estimates should make for economy and promote efficiency in every department. Perhaps there will never come a time when the cost of state government can be materially reduced. The greatest saving that can be attained will necessarily have to come through efficient management.

Limiting expenditures to an itemized appropriation is one way of attaining efficient administration, providing that the itemization is based upon an accurate statement of the needs of the department. It might require years, especially in institutions, to work out such details scientifically. In the meantime perhaps only an itemization of salaries and wages should be insisted upon while supplies, material, etc., should not be too minutely itemized. For additions and betterments such as new buildings, etc., full details should be required.

The question of funding the budget is not provided for at present, excepting the constitutional requirement imposing upon the Governor the duty of presenting estimates of the amount of money required to be raised by taxation for all purposes. A scientific budget should include a carefully prepared statement of estimates properly classified with supporting statements for all items that need consideration. A comparison of estimates should be made with past expenditures; the lapses and the balances in every fund should be included, and these data coupled with a statement as to the probable income should furnish adequate information to the legislature. With the exception of the state officers' roll, which in Illinois must be in a separate bill, all of the needs of the different departments might be provided for in one bill.

It is one thing to theorize on how to spend public money and safeguard the public interest, but it requires a practical understanding and much experience in order to effect even a small saving. Some desirable things have already been accomplished in Illinois; with diligence and patience much more will be attained.

BUDGET METHODS IN ILLINOIS

By John A. Fairlie,

Professor of Political Science, University of Illinois; Director, Efficiency and Economy Committee, State of Illinois.

Although the state of Illinois ranks third in the Union in population, wealth and industrial activity, the expenditures of the state government, until the past few years, have been relatively low, in comparison not only with the financial transactions of the national and municipal governments but also with those of the other large industrial states. But this situation has been rapidly changing during the last decade. The biennial appropriation made by the general assembly, which had been about $6,000,000 in 1875 and $10,000,000 in 1895, increased to $16,000,000 in 1905, to $20,000,000 in 1907 and 1909, to nearly $30,000,000 in 1911, to $38,000,000 in 1913 and to $46,000,000 in 1915. This increase has been due partly to the expansion of older state activities, such as charitable and educational institutions, and partly to the inauguration of new functions, such as state roads and a great variety of new executive offices, boards and commissions.

As a result of this increase in the amount and importance of state expenditures, attention has been attracted to the methods of authorizing and controlling the state finances, some improvements have been introduced, and proposals have been formulated and presented for a comprehensive budget system. It is the purpose of this paper to discuss the former and existing methods, the recent changes, and the proposed plans, which may aid in the general discussion of budget methods in the United States.

The fundamental requirements of the present system are to be found in the state constitution. The first constitution (of 1818) prohibited expenditures unless authorized by appropriations, and required a report of receipts and expenditures to be published with the session laws. The present constitution (of 1870) contains more detailed provisions which, if carried out fully, would provide more adequate methods than in practice have been followed. The power and responsibility for making appropriations and raising

revenue are vested, as is usual in this country, in the state legislature, subject to various restrictions. But a definite basis for an executive budget exists in the provision that the governor, at the commencement of each session of the general assembly, shall present "estimates of the amount of money required to be raised by taxation for all purposes." Moreover, all state officers and institutions are required to report to the governor before each session of the legislature; and the governor may at any time require information in writing from the officers of the executive department.

No governor appears to have carried out the provision of the constitution as to estimates; and an act of 1913 providing for a compilation of appropriation requests ignores the constitutional provision and places this function on the legislative reference bureau. Before this bureau was established, requests for appropriations were submitted informally by each office, department or board; and separate bills were prepared by the several departments and institutions, and introduced by individual members of the general assembly.

Appropriation bills are referred to a single committee in each house. But these committees are large and unwieldy. In the General Assembly of 1913 the house committee had 44 members (out of 153) and the senate committee had 37 members (out of 51). Sub-committees are appointed to visit the state institutions; and joint hearings of the committees of both houses are held to hear the state officers in reference to the appropriations required.

Except for deficiency and emergency appropriations, the appropriation bills are not reported to either house until nearly the close of the session. At this stage there is no opportunity for adequate discussion; and the committee recommendations are rarely changed. But not infrequently the bills passed by the two houses differ; and in such cases conference committees are appointed, whose reports are accepted as a matter of course.

After passing both houses, appropriation bills go to the governor, who may disapprove any bill or any appropriation item within ten days. A considerable number of appropriations are usually disapproved, and in some cases items are reduced, by the governor, and by this means the total amount is somewhat reduced.

As a result, instead of a carefully prepared budget, there are passed a large number of separate appropriation acts, with an absurd

range of variation in the amounts appropriated and the extent and character of the items. Thus at the session of 1913, there were passed 94 appropriation acts, which cover 116 pages in the volume of session laws. One act for the pay of members of the general assembly was for a lump sum of $2,600,000,—the amounts payable to each person being regulated by statutory provisions. Appropriations for the state university ($4,500,000) and for the ordinary expenses of the state charitable institutions ($8,000,000) were made in a few large items. On the other hand, appropriations for buildings and improvements in the charitable institutions were specified in 131 items; appropriations for the five normal schools were in one act, with 33 items; appropriations for the penitentiaries and reformatory were in five separate acts; and the "omnibus bill" for the great number of state offices, boards and commissions was in 96 paragraphs, with more than a thousand items. For one office there were such small items as $75 a year for rubber stamps, and $75 a year for twine.[1]

Some improvements in methods have been made in the last few years. The management of the state charitable institutions was centralized, by an act of 1909, under a single state board of administration, one of whose members is fiscal supervisor. This board has presented carefully prepared estimates of the needs of these institutions. The result has been to put an end to the former scramble and rivalry between the several institutions; and the acceptance by the general assembly of the estimates presented by the board.

At the session of 1913 a detailed compilation of the amounts requested by the various state officers, boards and institutions was prepared, after the legislative session had begun, with a comparison of the appropriations made two years before. But this was necessarily prepared in the form presented by each of the state agencies; and while of service to the appropriation committees of that year, was perhaps of more importance in demonstrating the need for more careful preparation of the estimates before the general assembly convened. At any rate, an act of that session establishing a legislative reference bureau imposed on this bureau the unusual duty of

[1] George E. Frazer: *A Report on the Accounts of the State of Illinois*, prepared for the Efficiency and Economy Committee.

receiving, compiling and preparing the requests for appropriations from the several state officers, boards and institutions.

Under this act, the legislative reference bureau prepared and had printed soon after the opening of the session of 1915 a voluminous compilation of appropriation requests, itemized in minute detail under a general scheme of classification. This work seems to have been carefully done and marks an important step towards a budget system. But it must be recognized that this fell far short of an adequate system. Necessarily the new classification made impossible in most cases a detailed comparison with previous appropriations; nor had the bureau been authorized to make an analysis of expenditures under the new classification, as a basis of comparison. To the writer the mass of detailed items has seemed too numerous, and more likely to bewilder than to enlighten the members of the appropriation committees.

But the most serious weakness of this undertaking was the lack of any responsible recommendations for the estimates as a whole. The bureau had no authority to make recommendations; and while it is supposed that the governor exercised some supervision over the requests from departments and institutions under the management of his appointees, the aggregate estimates amounted to more than $45,000,000,—an increase of twenty per cent over the appropriations of two years before.

Large reductions in these estimates were made by the appropriations committees and confirmed by the general assembly. But these were offset by important additions for purposes not included in the estimates,—notably to pay for cattle destroyed to suppress an epidemic of foot and mouth disease—; and the total appropriations from ordinary revenue, after deducting the items vetoed or reduced by the governor, were $8,000,000 more than in 1913. An expenditure of $5,000,000 was also authorized from the proceeds of a bond issue for the construction of a waterway in and along the Illinois river, making a total increase of thirty per cent in authorized expenditure over that made two years before.

Many of the increased appropriations were perhaps justified. But the need for more far-reaching reforms in connection with appropriations can be shown by some of the methods used and some of the appropriations made by this general assembly. The "omnibus bill," appropriating $15,662,296, was introduced in the house

on June 1, read a second time on June 2, and passed on the 3d. On second reading (the last opportunity for amendment) members complained that printed copies were scarcely obtainable. In the senate, this bill was introduced on June 8 and passed on the 10th.

There were 88 appropriation acts, 6 less than two years before. Many of them were in much greater detail than at previous sessions, and the appropriation acts as a whole cover 232 pages in the session laws, or twice as much as in 1913. The general salary appropriation was itemized; and the appropriations for the normal schools and penitentiaries were made in accordance with the classification in the estimates. But there were, as formerly, too many separate bills, and no approach to a uniform system of classifying items, while the detailed enumeration of petty items was extended.

On August 28, an injunction was issued by the circuit court to restrain the payment of salary items in the omnibus bill amounting to $262,348, as unconstitutional; and at the same time an act making an appropriation (of $26,270) to pay railroad fares of members of the general assembly was also held to be unconstitutional. Bills appropriating $92,601 for the relief of individuals, $458,802 for deficiencies, and for certain committee expenses, are also being attacked in the courts as in conflict with the state constitution.[2]

The need for a new budget system has been urged and a definite plan has been prepared and was submitted to the general assembly this year by a joint legislative committee established two years before to investigate all departments of the state government and recommend a plan to reorganize and centralize the administrative system with a view to economy and efficiency. This committee made a comprehensive study of the existing state administrative authorities, and proposed a general reorganization into ten executive departments, including a department of finance with provisions for preparing a comprehensive budget.

In its report, the committee called special attention to the absence of any satisfactory budget of estimates as a basis of appropriations, and to the provision of the state constitution requiring the governor to present to the general assembly estimates of the amount required to be raised by taxation:

> In the opinion of the committee the constitutional provision . . . . contemplates that the governor shall present to the general assembly a detailed

[2] See *Report of the Citizens' Association of Chicago*, September 9, 1915.

budget of appropriations recommended by him for the coming biennium, together with an estimate of the revenues of the state from sources other than direct taxation during the biennium, and a statement of the amount to be met by taxation. The careful preparation of such a budget would be a potent factor in securing economy and efficiency throughout the executive departments.[3]

A satisfactory budget statement should include a classified analysis of revenues as well as proposed expenditures, which should be subject to close scrutiny by competent and responsible officials charged with authority in the administration of the state finances, and submitted to the general assembly with the definite recommendations of the governor.[4]

The plan for organizing a department of finance proposed that there should be a state comptroller, appointed by the governor, who should be charged, among other things, with the preparation of a budget of revenues and expenditures for submission to the governor.

In summing up the results to be expected from the plan of administrative reorganization presented, the committee urged that:

The proposed reorganization will also aid in the preparation of a proper budget of estimates as a basis of appropriations. Each department will be able to formulate a careful estimate of needed appropriations, considering the relative demands of its several bureaus and services; and these departmental estimates will be compiled and analyzed for submission to the governor, who will recommend the aggregate budget of items approved by him to the general assembly. This will place on the governor the responsibility for the total amount requested; and the general assembly will hesitate to increase the appropriations recommended by the governor.[5]

Neither the finance bill nor the other bills prepared by the efficiency and economy committee to carry out its plan of administrative reorganization were enacted,—with the exception of a revision of the law relating to printing and other contracts, which should effect a considerable economy. But the recommendations are still before the people of the state; and a prominent candidate for governor at the election in 1916 had definitely announced that he favors and will urge a reorganization of the state administration and the introduction of business methods and a budget system in the state government.

[3] *Report of the Efficiency and Economy Committee*, State of Illinois, 1915, p. 22.
[4] *Ibid*, p. 34.
[5] *Ibid*, p. 75.

STATE BUDGET MAKING IN OHIO

By W. O. Heffernan,
Ex-Budget Commissioner of Ohio.

Original Status of Financial Procedure in Ohio

Senate Bill No. 227, entitled an "Act to Establish a Budget System for the State Officers, Departments, and Institutions," was passed on April 11, 1913, and approved by Governor James M. Cox on May 6, 1913. Nothing was done towards carrying out the provisions of this act until after August 6, as a referendum was threatened against it, and it was deemed wise to wait until the referendum period of ninety days expired before going into its organization.

The law provided that on or before the fifteenth day of November, biennially, in the even numbered years, all state activities requiring appropriations should submit to the Governor a statement of their wants for the next biennium. It also provided that the Auditor of State should furnish the Governor a statement showing the balance standing to the credit of the several appropriations for each department, institution, commission, and office of the state, for each and every current purpose of the state government at the end of the last fiscal years in which appropriation accounts had existed; a statement showing the monthly average of such expenditures from each of the accounts for the fiscal year and also the total monthly average from all of them for the last four fiscal years. It was further provided that all of the departments, institutions, commissions, and officers of the state, upon request, should furnish to the Governor any information desired in relation to the affairs of their respective departments, institutions, or officers.

The information, or rather the statements which the Auditor was supposed to furnish, were very unsatisfactory. It took weeks and months to get them because there were no available records in the Auditor's office from which figures for purposes of comparison could be taken. In other words, there were no comparative records kept up to the time of the installation of the Budget System.

The budget act also provided that, at the beginning of each regular session of the General Assembly, the Governor should submit to the General Assembly the estimates of the departments, institutions, commissions, and offices of state together with his budget of current expenses of the state for the biennial period beginning on the first day of July next thereafter. The act carried the usual appointive power and gave to the Governor the power to examine, without notice, the affairs of any departments, institutions, or public works, commission, or office of the state for the purpose of ascertaining facts, and to make findings and recommendations relative to increasing the efficiency and curtailing the expenses therein. The Governor or his appointees had the power to compel the attendance and testimony of witnesses, administer oaths, and examine such persons as they deemed necessary, and to compel the production of books and papers. The orders and subpoena issued by the Governor or his Budget Commissioner in pursuance of the Authority in them vested by the provisions in this act, could be enforced upon the application of the Governor by proceedings in contempt in any court of common pleas.

I assumed office on November 1, 1913. The Governor was then considering convening the Ohio legislature in extraordinary session for the purpose of passing much needed school legislation and to repeal the 1914 appropriation act if sufficient reductions could be made to warrant this action. My first duty was to take the old 1914 appropriation act, which became available on the sixteenth of February, 1914, tear it apart, analyze it, and report to the Governor whether or not sufficient reductions could be made to warrant his calling a special session. About the middle of January, I reported to him that a million dollars could be lopped off the 1914 appropriations without in any wise affecting the efficiency of the various departments. The new budget was presented to the extraordinary session of the legislature and passed with a reduction of some $900,000. There was hardly any change made by this legislature in the figures which I presented to them for their consideration.

Under the old scheme of things in Ohio, we had an appropriation year beginning February 16 and ending February 15. We had a fiscal year beginning November 16 and ending November 15. Several of our other institutions and departments ran on different years, and this made all of the records useless for purposes of com-

parison. A bill was then passed fixing the year for all activities of the state government to begin on July 1 and end June 30. This change in years necessitated the four and one-half months budget from February 16 to June 30, the interregnum between the old and the new year.

The old state emergency board was empowered to authorize various departments when appropriations ran short to borrow money from the banks. This was changed by giving to the state emergency board an appropriation sufficient to prevent the carrying forward of deficits. On an average of $250,000 is given to this board each year, which is quite sufficient to care for any emergencies that may arise within the budget period. It was found that the old emergency board was authorizing the borrowing of money when we were blessed with a plethoric treasury, and a plethoric treasury without budgetary control is a curse to any state.

Towards the end of the 1914 appropriation year, despite the wails and howls emitted by the heads of departments affected by the cuts heretofore mentioned, a study of the balances resulted in the lapsing to the general revenue fund of almost $1,000,000. This was accomplished through the supervision of expenditures, admonitions to the officials, and holding down the outgo far below that to which these departments were accustomed.

So long as there were no figures available for comparison with previous years the adoption of a system of classified expenditures, without which there could be no budget, was prevented. Under the old regime the legislature usually had before it in considering financial matters only the *ex-parte* testimony of interested persons, whose statements and statistics in support of their alleged needs it was nobody's business to examine critically, and which, in the absence of reliable and exact information, could not be readily refuted.

I found nothing of immediate value in the state reports. The obvious lack in these reports were as follows:

1. Improper classifications and segregation of accounts for the purpose of reporting financial transactions of the department.

2. Inadequate classifications by objects of expenditure.

3. Amounts of expenditure for specific objects not specifically classified.

4. Amounts showing expenditures by objects containing amounts representing inventory on hand.

5. Amounts of expenditure shown in report containing amounts and specific appropriations, which unbalanced any comparison which one might wish to make.

The obvious, helpful reports suggested were:

1. A division of accounts in accordance with budget classifications.

2. A schedule which would show the number of employees and salaries paid to each, to be incorporated in the report so that a comparison could be made as to the number of employees in each of the departments and institutions; and this same system to show the per-capita expenditures for salaries for each of these departments and institutions. This item could be sub-divided further, but it might not be desirable.

3. That all of the Ohio State Reports be incorporated in two volumes and be known as the "Ohio State Reports."

Under the system which formerly prevailed in this state the heads of departments, boards and commissions were requested to submit to the Auditor of State, upon blanks furnished by him, their estimate of funds necessary to run their departments until the next biennium. These requests were then returned to the Auditor of State, who tabulated their wants and submitted them without comment to the incoming legislature. Hearings before the finance committee of the house were held behind locked doors and drawn blinds, and the men who were the best talkers got the most money. It was not a case of need so much as it was a case of "you scratch my back and I will scratch yours." All of the house appropriations were made in two ways, either in lump or inflexible specific appropriations. The lump sum scheme seems to have predominated in appropriations during the last decade, though many examples of specific appropriations occurred during this period. A thoroughly efficient and honest administrative official can oftentimes get better results if he has a free hand in the use of funds, and circumstances sometimes arise which make it desirable to use funds for purposes which the legislature could not foresee: But on the other hand, the same kind of an appropriation in the hands of dishonest or incompetent officials are so easily misused that they have proven generally unsatisfactory and often vicious. Specific appropriations were the

natural ends towards which legislative bodies reacted after having found the lump sum inadequate. The fact that the money appropriated specifically, could be used for no other purposes and no other money was available, made it necessary to allow a wide margin for any contingency that might arise. Usually the maximum amounts provided were not required, but the official thinking that he must allow the money to lapse or spend it for the purposes as specified, was apt to be too free in spending.

Not until the budget was established in 1914 was any attempt made to combine the virtues of the two systems and eliminate their vices. In order to avoid the evils of both lump sum and specific appropriations, appropriations were made specifically but were provided with the necessary degree of flexibility. This was done by means of the transfer system which made it possible to appropriate, instead of maximum estimates, those slightly above the minimum. Provided with the privilege of transfer, departmental officials could reduce their estimates on each item knowing that according to the "law of probability" all projects would not cost the maximum, and that the small margin of safety could be transferred from those which cost the minimum to the few that actually approach the maximum. The result of following this plan was economy and smaller appropriations for specific items, and in consequence a smaller budget. Along with this a check was provided on expenditures for the reason that the request for a transfer invited investigation by the emergency board, and required a statement of explicit reasons why the fund to which transfer was sought was not adequate.

During the early history of Ohio, the state was poor. Funds for expenses were largely raised by direct taxation and the pinch of taxes could be expected to react upon officials and check their waste and extravagance. With tremendous increase in wealth these checks became less effectual and there came a tendency to resort to indirect taxation for funds with which to run the government. Scandalous waste and inefficiency resulted. In 1914 a book of budget classifications and rules of procedure was distributed in all of the departments at the same time that the blanks for their estimates were requested. According to this classification all known departmental wants were itemized to the penny. The fact that the original requests had to be itemized reduced considerably the total

of the estimates. The word "Contingencies," which had appeared in divers places in all past appropriation bills was entirely eliminated. It had been the custom to request under this head large sums of money, and what few records there were showed that it was disbursed for all sorts of things from "Personal Services" to "Additions and Betterments."

The old appropriation bills, because of the appropriations of "Receipts and Balances" year after year, were absolutely beyond the comprehension of any person who tried to digest or analyze the financial acts of any session. In fact, with these words appearing in the bill, no one knew how much money was being voted from the state treasury. So long as this practice continued attempts at retrenchments were largely nullified by these blind appropriations and it was urged upon the legislature that this practice be discontinued. A survey showed that all departments receiving these blind appropriations of "Receipts and Balances" were guilty of the greatest extravagance. Detailed classifications checked these extravagances, because the General Assembly would not countenance the granting of money for purposes not entitled to state aid.

Under the old scheme hearings on the appropriation bills were had by the Committee on Finance of the House of Representatives, and then the whole thing was duplicated by the Senate Committee on Finance. This practice was not only expensive but it prolonged the session indefinitely.

Suggestions Made

The budget is not new. Primarily it balances income against outgo, prevents extravagance, and forces attention to fundamentals long recognized in English finance and administration. In England the ministry stakes its tenure of office on the passage of the budget substantially as prepared. There it is not merely a recommendation by the executive, but it is the fiscal program of the ruling powers in both the legislative and executive branches. It is effective because under this arrangement it has behind it all the force of the party organization. In Ohio the budget is merely an executive recommendation, and the most persuasion that can be given it is its preparation by expert talent.

In the installation of a budget it is quite obvious that certain reorganizations are necessary. The budget officer should report

directly to the Governor, and should give to him economy and efficiency reports on each and every function of state government. Some scheme should be evolved whereby the legislative and executive functions may be brought closer together in the process of budget making. For instance, Wisconsin provided during the last session of her legislature, that the Governor might sit with the budget authorities during a certain period of its preparation.

The Governor should have the selection of the officials who are to be his advisors, and most of the appointments now referred to the senate for confirmation should be left to him alone. On the other hand, it should be understood that the acceptance of budget recommendations by the legislature does not deprive it of power to originate legislation, and the preparation of the budget does not involve the acquiescence of the legislative majority in advance.

It was recommended to the Ohio legislature that public hearings be had on all estimates—under the old scheme hearings being held behind locked doors. This was designed to bring about citizen coöperation, coöperation of the people who are interested in various projects, and the body voting the appropriation.

The attention of the legislature was also invited to ways and means for shortening their session. It was pointed out to them that unduly protracted sessions increased the cost of each law—this cost now being $269 in Ohio, with only New York and Illinois higher. Emphasis was placed upon the recommendations that the quality of laws must not be lowered, and that time should not be saved through the sacrifice of quality of their work. I wanted the adoption of a rule prohibiting the introduction of any bill in either house carrying an appropriation unless the request for money was classified according to budgetary form. I also asked for the adoption of a rule keeping committees up to their work and penalizing them when absent or tardy. This suggestion, which savored strongly of discipline, went unheeded by the last session of the legislature.

If retrenchment was to be brought about, some radical changes in the state governmental machinery were necessary in the interest of both economy and efficiency. The following consolidations were recommended:

Building and Loan Department with the Department of Banks and Banking.

The State Library, the Traveling Library, the Library Organizer with Ohio State University.

The Adjutant General's Department with the Ohio National Guard.

The Medical Board, the Pharmacy Board, the Embalming Examiners, the Dental Board with the State Examining Board.

The Lima State Hospital, Reformatory for Women, the Soldiers and Sailors Orphans Home with the Board of Administration.

The Bureau of Vital Statistics with the State Board of Health, and

The State House and Grounds with the Board of Public Works.

Also I recommended the following abolishments:

Commissioner of Soldiers Claims, Public Printer, State Bindery, Armory Board, Flag and Relic Room, Extension Work by Educational Institutions, not specifically authorized by the General Code, the Naval Militia, and Cavalry in the Ohio National Guard.

None of these recommendations was even considered.

The total request of the budget for the period beginning February 16, 1915, and ending January 30, 1917, was $50,128,000. The total recommendations for the same period were $39,927,000. There was a free and unincumbered balance in the state treasury on the day before the budget bill became a law, of $3,000,000. The estimated revenues over my budget recommendations were $1,273,000; this provided a liberal margin for shrinkage in revenues in this period, and kept the expenditures within the revenues. Adding to this excess of revenues over my recommendations the balance of $3,000,000, which was a heritage to the new administration, there was $4,273,000 more than was actually needed, according to the budget recommendations, for maintenance of the state's activities.

The total appropriations for this period, as finally passed, reached the stupendous sum of $46,298,000 or an excess over the budget recommendations of $6,371,000. The appropriations exceeded the estimated revenues by $5,098,000.

Advance Secured

The Governor of Ohio during 1913 and 1914, although pilloried as an enemy of state progress, is here given unstinted tribute for making possible the modern fiscal system Ohio enjoyed during these years. The budget system was first condemned as being

autocratic and a dangerous power in the hands of the Governor. It was declared to be so vicious that it must and would be abolished upon the accession of his opponents to power; that it was not a function of the Governor and would be transferred to the State Auditor's office.

In spite of this misrepresentation and lung thinking in the last campaign, the whole system was kept right where it was placed at the beginning. The campaign conducted last year in Ohio, mainly on the contention that the Governor should not have so much power, was won by those who said that they would limit his power. We have seen that this fear of executive power was merely pretense.

During the summer of 1914 a special session of the legislature was called for the first time in its history to reduce taxes. They were in session one day which I believe is the record for a session of any legislature in this country. This session cost approximately $3,500 and resulted in a horizontal cut in taxes approximating $2,200,000.

The increased demands from the various state departments due to growth of population and developments of the state in general, which necessitated larger expenditures for activities then being performed, and the clamor by the people for state departments to undertake new functions, all tended to swell the budget estimates and make the job of paring down much harder. There were a number of demands for new activities and increased expenditures that could not be well denied. It was my opinion that a rigid curtailment should be made in the allotments to such departments as were performing service of doubtful value.

I found many activities long established and yet appropriated for, which had absolutely no reason for continuing to receive state appropriations. Expenditures begun at a time when conditions were different were often continued year after year when the necessity for them no longer existed. No legislator could be expected to familiarize himself with ninety different departments and the burden of proving that the necessity for an appropriation no longer obtained was on the person suggesting the change. Now the system is reversed.[1] If after careful inquiry the budget commissioner refuses to recommend an appropriation, his recommendation is

[1] Copies of the Ohio 1915–1917 Budget Report may be had by addressing Mr. W. O. Hefferman, of The National Cash Register Company, of Dayton, Ohio.

prima facie evidence that the money should not be spent. The budget of 1914 provided for the General Assembly a means of obtaining an impartial statement of facts, which were obtained by diligent research and submitted by a department which had no axes to grind and was biased by no consideration of prejudice or favor.

FINANCIAL ADMINISTRATION OF THE COMMONWEALTH OF MASSACHUSETTS

By Ernest H. Maling,

Secretary, Massachusetts Commission on Economy and Efficiency.

Introduction

The state government of Massachusetts is financed by revenues appropriated annually by the legislature, by revenues expended under standing statutory provisions and without appropriation, and by loans.

A budget, in the sense of a comprehensive financial plan with recommendations for all classes of expenditures and a plan of financing them, has never been prepared. For such departments and work as are financed from revenues annually appropriated, the departmental officials submit estimates to the state auditor who tabulates them, without modification, for the use of the legislature, governor and the Commission on Economy and Efficiency, an agency to conduct investigations for both the legislature and the governor. In addition to the departmental estimates, numerous petitions for appropriations are introduced into the legislature with the result that the auditor's tabulation cannot be accepted as complete, and no other tabulation of proposed expenditures is made.

The departmental estimates and other proposals for expenditure are acted upon exclusively by the legislature and its agent, the Commission on Economy and Efficiency. The governor takes no part in the preparation or revision of estimates, his action in appropriation matters being limited to the approval or veto in its entirety of each supply measure passed by the legislature. The law provides that the auditor's tabulation of estimates shall be submitted to the governor-elect approximately three weeks prior to the convening of the legislature, but such a practice has little significance since the law makes no other specific provision for the governor's participation in budget making and no facilities for the preparation of a budget are furnished him.

The present law governing the preparation of departmental

estimates was enacted in 1912 and supplanted an act passed in 1910 which provided that the auditor's tabulation of departmental estimates shall be submitted to the governor and council "for examination, and the governor shall transmit the same to the general court with such recommendations, if any, as he may deem proper." With respect to estimates for "special purposes," *i.e.*, in addition to those covered by regular, annual appropriations, the law of 1910 further provided that the governor "shall make recommendations as to how much should be raised by the issue of bonds and how much should be paid out of current revenue."

The purpose of the act of 1910 was to place the responsibility for a budget upon the governor. It was claimed by proponents of the law that under its provisions the governor "must exercise control and be responsible for increase in expenditures and in the debt as well." The law became fully operative in 1911 and it soon became evident that the governor and council had neither the authority nor the facilities for investigating the administration of the departments in order to determine the reasonableness of the estimates. The law contemplated that the auditor's office would furnish such data as might be needed, but no increase in the personnel of that office was authorized. The auditor furnished data relative to receipts and payments but had no means for assisting the governor in determining whether the departments were in genuine need of the amounts contained in the estimates. At the request of the governor, the legislature authorized him to investigate the departments and for this purpose public accountants, engineers and other investigators were temporarily engaged. On the basis of the reports of his investigators, the governor submitted from time to time throughout the legislative session, recommendations on practically all of the estimates. Material reductions in the estimates of some departments were recommended by the governor, but the legislature was influenced to only a small degree by the governor's messages and proceeded with its appropriation bills in much the same manner as formerly.

Although the law of 1910 did not prove satisfactory, it cannot be regarded as a failure of the principle of an executive budget. The intent of the law was to place responsibility for the estimates upon the governor, but the legislature in fact never relinquished its prerogatives and did not give the governor adequate means for in-

vestigation and preparation of a budget. Moreover, it is extremely doubtful if a genuine executive budget procedure can be adopted so long as the state government remains in its present status of decentralization with over 100 distinct units of organization controlled by some 335 officials and members of boards. Another obstacle in the way of an executive budget is the annual election of the governor.

In order to correct one of the defects in the law of 1910, the legislature created in 1912 a permanent investigating body, the Commission on Economy and Efficiency. At the same time, the governor's authority and responsibility for recommending appropriations were abolished and the whole function of budget making was taken back into the legislative branch. The 1912 law provides that the Commission on Economy and Efficiency shall examine the departmental estimates and "shall report thereon to the general court," thus making the commission a legislative agency so far as the investigation of estimates is concerned. On other subjects, however, the commission is required to investigate sometimes for the governor and at other times for the legislature.

Further changes in the methods of handling estimates and making appropriations have been advocated recently. In his last inaugural address, Governor Walsh made a recommendation for again placing upon the governor the responsibility of submitting estimates to the legislature. A special committee on legislative procedure at the last session recommended several changes in methods of preparing estimates and drafting appropriation acts. No changes resulted from these recommendations, which are here referred to as evidence of the efforts being made to effect improvements in the state's appropriating machinery.

At present, different methods are followed in administering the revenues subject to annual appropriation, the revenues expended under standing statutory provisions, and loans. The procedure for each class will be described in some detail.

Revenues Subject to Annual Appropriation

The principal classes of revenue subject to annual appropriation are a general property tax, known as the "state tax," corporation taxes, inheritance taxes, licenses, and departmental revenues, together with assessments on Boston and neighboring cities and

towns in the "metropolitan" district to reimburse the commonwealth for the costs of acquiring, constructing and operating water and sewer systems and parks for those municipalities. With the exception of the state tax and the metropolitan assessments, the revenues are assessed and collected at established rates. The state tax is fixed annually by the legislature at that sum which with the estimated receipts from other revenues will equal the total amount appropriated by the legislature.

Each important stage in making annual appropriations is briefly described in the following outline, and a more detailed description of the preparation and investigation of estimates and of the form of appropriation acts is then given. First, however, it may be well to explain that the fiscal year for the state ends on November 30; the governor is elected annually in November and is inaugurated on the first Thursday in January; and the legislature convenes on the first Wednesday in January of each year.

Outline of Appropriation Procedure

The appropriation procedure may be summarized as follows:

(*a*) Preparation of estimates by department officials and submission to state auditor not later than November 15 of each year.

(*b*) Tabulation of departmental estimates, without revision or change, by auditor and submission of tabulation to governor-elect and to State Commission on Economy and Efficiency not later than December 15.

(*c*) Publication by auditor of departmental estimates, together with his estimates of revenue for ensuing fiscal year, in a report submitted to the legislature on the first Thursday of January.

(*d*) Report and recommendations of Commission on Economy and Efficiency to legislature "as to any or all of the appropriations requested or the method of raising money for the same, as it may deem expedient," submitted "annually on or before the first Thursday in January, and at such other times as it may see fit."

(*e*) Preparation by House Committee on Ways and Means of appropriation bills for meeting ordinary, recurring expenses. As a rule a separate bill is prepared for each department or institution but in some instances two appropriation bills are drafted for a single department. The bills are reported to the House in whatever order they may chance to be prepared. The bills are based

on the estimates tabulated by the auditor, supplemented by information obtained at committee hearings or submitted by the Commission on Economy and Efficiency.

(*f*) Legislature's action on appropriation bills for ordinary expenses. These bills, when reported out by the House committee, follow the usual course of legislation and almost without exception are enacted in the form reported by the Committee on Ways and Means.

(*g*) Governor's action on appropriation bills for ordinary expenses. One or more separate bills for each department or institution, as enacted by the legislature, are laid before the governor for his action from time to time throughout the legislative session. These bills are invariably approved by the governor.

(*h*) Legislature's action on appropriations for "special" purposes to be met from revenue. Requests for "special" appropriations submitted by departmental officials are included in the auditor's tabulation, but other requests for "specials" are submitted directly to the legislature. All requests are first referred by the legislature to the committee concerned with the activity or function for which a special appropriation is sought. For each special appropriation which is approved, the committee reports an authorization in the form of a "resolve" or "special act," which is then referred to the House Committee on Ways and Means for a report. In contrast to the favorable action taken on their appropriation bills for ordinary expenses, the Ways and Means Committee's reports on "specials" are frequently not accepted by the legislature.

(*i*) Governor's action on measures authorizing "special" appropriations. The separate resolve or act authorizing each "special" appropriation is submitted to the governor who not infrequently vetoes such measures.

(*j*) Preparation by House Ways and Means Committee and enactment by legislature of appropriation bills for such "specials" as have been authorized, all "specials" being included in three or four bills.

(*k*) Preparation by House Ways and Means Committee of a bill fixing the "state tax" and apportioning it among the cities and towns of the commonwealth. The act fixing the state tax is passed near the close of the legislative session and in the form drafted by the Committee on Ways and Means.

Preparation and Investigation of Estimates

In part, the form of the estimates is determined by Chapter 719 of the Acts of 1912 which requires departmental officials to submit to the state auditor "statements showing in detail the amounts appropriated for the current fiscal year, estimates of the amounts required for the ensuing fiscal year, with an explanation of the reason for any increased appropriation, and with citations of the statutes relating thereto, and the expenditures for the current year and for each of the two years next preceding." The law further requires that separate statements of estimates for any "special purposes or objects . . . in addition to the ordinary running expenses" shall be submitted "in detail" to the auditor.

For many years, the statutes have required the submission of estimates to the auditor for tabulation and presentation to the legislature. In carrying out this provision of law it has become customary for the auditor to draft forms to be used by the departments in submitting their annual estimates. For the 1915 estimates the forms were revised so as to require more information and a more nearly standard classification than formerly.

In each of the two tabulations of estimates required by law, the auditor incorporates the estimates for current expenses and those for "special purposes" in separate reports. For many departments and offices, the estimates for current expenses are presented in practically the same detail as that used in the appropriation acts, but for each institution the estimates are given in from seven to ten items while the act grants a lump sum appropriation. Additional details as required by the estimate sheets sent out by the auditor's office are not tabulated but are available for use by the Ways and Means Committee and the Commission on Economy and Efficiency. In addition to the estimates for current expenses, the tabulation shows the appropriations and expenditures for the preceding year, together with the unexpended balances at the end of the year.

The tabulation of estimates for "special purposes," which is presented in a separate report, shows the departmental estimate for each proposed building or project together with brief explanatory statements of the officials' reasons for requesting an appropriation. The detail in these estimates is usually the same as that appearing in the resolves providing for such of the work as is authorized by the

legislature. Neither the tabulation of current items nor that of "specials" contains any summary or recapitulation of the total requests to be financed from revenue.

The second tabulation of estimates made by the auditor is submitted in the form of two legislative documents (House Documents Nos. 1 and 2), one containing the estimates for current expenses and the other, the estimates for special purposes. The estimates are presented in the same form as in the tabulation for the governor-elect and the Commission on Economy and Efficiency. The second report differs, however, in that it presents expenditure figures for the last three years and omits the data on unexpended balances. In his second tabulation, the auditor also shows his estimate of the amount which will be received from each principal class of revenue subject to annual appropriation.

In addition to the estimates submitted to and tabulated by the auditor, large appropriations are requested by petitions submitted directly to the legislature. In the session of 1915, approximately 200 petitions requesting over $2,500,000 in appropriations to be met from revenue were submitted directly to the legislature and thus omitted from the auditor's tabulation. Of this amount, only a negligible sum represented requests which could not have been submitted in time for tabulation by the auditor. With few exceptions, the appropriations requested in the legislative petitions were for departmental and institutional purposes of the same nature as the "specials" tabulated by the auditor. The "specials" in the auditor's tabulation amounted to $2,630,103 or a little over one-half of the total requests of this class. Bond issues of over $8,000,000 were also requested in petitions to the legislature. None of these was included in the auditor's tabulation, since that statement, as previously explained, is limited to revenue appropriations.

Those requests for appropriations submitted as petitions cannot be considered by the governor, the Commission on Economy and Efficiency or others interested in budget making until the petitions have been referred to the several legislative committees and printed. With such a practice in force, it is impossible for a genuine budget to be prepared.

Supplementing the estimates submitted to the auditor, plans and specifications for the construction of proposed buildings at state institutions must, by provision of law, be submitted by the

institutional officials to the state board having supervision over their institution, or in the case of institutions not under the supervision of a state board, to the committees of the legislature by whom the request shall be considered. The procedure required by this law has assisted in improving the character of construction as well as giving the legislature a basis for considering and granting appropriations for new buildings and other improvements at state institutions. In one respect, however, the procedure under this law should be radically changed, so as to avoid paying architects large sums for plans which are used only in making unsuccessful attempts to procure appropriations.

The Commission on Economy and Efficiency has investigated estimates for both ordinary expenses and "special purposes" and has presented its material and conclusions partly by means of conferences with the House Committee on Ways and Means and partly by written reports. In its studies, the Commission has made a special effort to collect facts relative to the work conditions and needs of the state institutions whose requests constitute a large proportion of the total sum asked for "special purposes." In addition to the returns made to the auditor and to the plans and specifications for new buildings submitted in compliance with law, the institutional officials have furnished to the Commission on Economy and Efficiency further data on proposed construction together with statistics on the physical plant, such as accommodations for patients and employees, etc. The information has been furnished in response to a questionnaire designed to develop facts which would furnish the means for testing and interpreting the figures on estimated and actual expenditures submitted to the auditor.

Form of Appropriation Acts

As a rule, a separate appropriation act is passed for the expenses of each department and state institution. Exceptions occur, however, and in some instances several appropriation acts are passed for a single department while a small number of acts (four in 1915) are passed for "sundry miscellaneous expenses." The larger part of the appropriations in these miscellaneous acts are for work or purposes authorized by the legislature then sitting, including the construction of institutional buildings, public improvements and other "specials" which do not properly come within the title "expenses."

The acts granting appropriations are in a variety of forms, and the only factors commonly specified are (a) the revenue from which money is appropriated, as "ordinary revenue" or some special class of revenue as the assessments on the Metropolitan Park District, and (b) the period in which the appropriation is available for use. The appropriations for some departments and institutions are made in lump sums and for others in detail, but with no logical reason for the differences.

Some acts designate the department or official authorized to expend the appropriation while others contain no reference to any department or official. In the latter case no practical difficulty arises as to authority since appropriations are granted only for such work or purposes as have been previously authorized by a statute which designates the department or official to perform the work.

In many instances, the salaries of officials and employees are fixed by law and, as a rule, the acts appropriate separately for such salaries, while allowances for other salaries are grouped or are merged with other objects of expenditures. In those acts which appropriate in some detail for a single department, half or more of the items frequently specify the amount allowed for salaries which are fixed by statute. For example, in 1915 the appropriation act for the office of the treasurer, an elective official, contains 19 items of which 15 are for the salaries of individuals, from the treasurer down to a messenger at $1,000.

Some appropriation acts specify the amounts to be expended on distinct functions and sub-activities, some of which are unimportant, and other acts specify the amounts for the several organization subdivisions of a department.

The appropriations for "special" purposes, principally construction work, are included in the acts for "sundry miscellaneous expenses," as previously explained. The amount granted for each institution or undertaking is stated as a lump sum in the appropriation act but a reference is given in each instance to the legislative resolve, which specifies the sum appropriated for each principal piece of construction or job.

The four acts for so-called "sundry miscellaneous expenses" in 1915 contain 138 distinct items of appropriation, the number of items in a single act ranging from 9 to 54. The total amount carried by each of these four acts is not stated therein, neither are the

items classified or arranged according to any system nor are they listed in the index to the session laws, for the reason that these appropriation acts are considered as perfunctory measures, being made up largely of items for which separate resolves were passed by the legislature. With slight changes in methods, the amount appropriated to meet the requirements of new legislation might be clearly shown in a single appropriation act. This information may be obtained from a statement issued by the state auditor shortly after the close of each legislative session, but unfortunately this statement receives little attention.

The number of appropriation acts passed in each month of the legislative session of 1915 and the amount appropriated in each month are shown in the following statement:

Month	Number of acts	Amount
January	18	$1,194,907.44
February	34	5,795,018.85
March	61	10,594,275.59
April	16	2,986,295.04
May	5	1,372,058.00
June	2	786,623.31
Total	136	$22,729,178.23

Revenues Utilized Under Standing Statutory Authority

The revenues which are not subject to annual appropriation but are expended under standing statutory authority comprise several classes of imposts, as motor vehicle fees, highway assessments levied on counties, assessments on cities and towns for harbor improvements, etc., together with the earnings of institutional industries and other undertakings, and the interest from invested funds. The amount of revenue collected from these sources and expended without specific appropriation could be ascertained only by extended investigation, but in 1914 the chief sources of such revenue, exclusive of interest from investments, produced over $2,240,000 or approximately 10 per cent of the receipts from revenue subject to annual appropriation. Practically all this sum is used for meeting expenses of operation and maintenance and construction costs of the same nature as those met from revenue subject to annual appropriation.

The statutes governing the expenditure of revenues not subject

to annual appropriation indicate in general but not in detail, the purposes or objects for which they may be used. No information concerning these revenues is presented in the auditor's tabulations of estimates for the legislature, and in fact, neither that body nor the governor have any important part in the administration of these public funds. In the auditor's annual report, detailed statements of the receipts and expenditures of non-appropriated funds are given but they are understood by very few persons other than the officials who administer them.

Loans

Although Massachusetts has for many years expended large sums of current revenue for new work, bonds have been issued extensively, principally for construction of armories, institutional buildings, additions to the State House, highways, harbor developments, and war expenses. Bonds issued for these purposes are known as "direct debt" of the state. State bonds have also been issued to finance the construction and development of parks, water systems and sewer systems in the so-called Metropolitan districts. These latter, known as the "contingent debt" of the state, are to be met by assessments levied on the benefited cities and towns.

By a law enacted in 1912, all state bonds must be issued on the serial payment plan. With the exception of a few loans for indefinite periods, the statutes specify the period for which the bonds may run. The statutes usually name only the general purpose for which the proceeds of the loans are to be used, but occasionally the law specified in some detail the work to be financed. Many issues are authorized for a stated sum with provisions that a specified portion of the total may be issued each year for a term of years, on the recommendation of the department expending the loan, but with a provision that any proposed issue of a portion of the bonds must be approved by the governor and council. Some bond acts require a similar approval before the expending department can execute contracts for construction or other work.

Legislative bills for bond issues originate from recommendations of state officials, from petitions of members of the legislature or of citizens interested in the development of some branch of state work. The bill or petition follows the same course as that described for appropriation bills for "special purposes," being referred to the

committee concerned with the proposed work. If that committee reports in favor of a bond issue, its bill is referred to the House Ways and Means Committee. Each proposed bond issue is considered separately, no attempt being made to prepare a loan budget, nor to study the loan measures in their relation to revenues devoted to the same general purposes as are contemplated in the loan bills. A separate act or resolve is enacted for each approved bond issue, thus placing each loan project before the governor for his approval or veto. In 1915, 20 separate bond issues were authorized by the legislature, of these 9 were "direct debt" loans aggregating $3,076,000, and 11 were "contingent debt" loans for $697,000.

While the bond issues of Massachusetts appear to have been authorized for carefully considered purposes or projects, it is questioned whether the state has succeeded in granting funds to its several departments and institutions in proportion to their genuine needs. The method of administering the finances makes difficult such an allotment of moneys. With some of the largest spending departments financed in part from revenues annually appropriated, in part from revenues expended under standing or continuing statutory provisions and in part from bonds which may be issued annually for a term of years, on the recommendation of the departmental officials, it is exceedingly difficult to secure well balanced grants of public funds.

TAXATION AND THE MUNICIPAL BUDGET

By Milton E. Loomis,

New York University, School of Commerce, Accounts and Finance.

The relation of the revenue side of municipal finance to budget administration is a subject that has not attracted a great amount of public attention. The development of the municipal budget in American cities during the last few years has been almost wholly in the direction of a more effective control of expenditures. In fact, the term "budget" is generally used to refer solely to a more or less detailed estimate of future expenditures. The fact is lost sight of that the budget properly includes an estimate of probable income as well as of outgo. This failure to recognize the full meaning of the budget has been due, in part, to the circumstance that frequently the administration of the revenue-raising function has been in the hands of a set of officials entirely distinct from those charged with the duty of supervising expenditures. Moreover, in many cases the tax ordinance is passed at a time so far distant from the time when future expenditures are determined that it is difficult to associate the two acts as part of the same procedure—the passing of the budget. Finally, American cities have been given so little independent authority in regard to the objects and methods of local taxation that the process of raising revenue to meet estimated needs has been largely reduced to the formal administration of a previously enacted law or constitutional provision. The revenue system has not been open to substantial improvement through local action, and has, therefore, lost its position as a complementary element in the development of budget administration.

The fact remains, however, that the nature of the revenue system may have an important bearing upon the effective carrying out of a scientific budget plan. From the standpoint of successful budget administration a good revenue system should possess at least two salient characteristics—ready adaptability to changing demands for revenue, and certainty and regularity of yield.

Unless the revenues can be adjusted to meet the estimated ex-

penditures without causing serious disturbance in the economic and social organization of the community, the city administration may be handicapped in putting into effect a constructive budget program. Municipal expenditures are steadily increasing. This increase must be met by a corresponding increase in revenues. The revenue system should be so adjusted to take care of the necessary annual increase with the least strain on the tax-paying public.

Certainty is as important as flexibility. If it is not possible to estimate with reasonable accuracy the amounts that the various sources of revenue will yield during the coming year, it will obviously not be possible to construct and carry out an intelligent plan of expenditure. There should be no marked fluctuations in the amount of income from year to year, or at least no fluctuations not due to readily foreseen and assignable causes.

The following brief discussion will deal exclusively with these two characteristics of American municipal revenues—flexibility and certainty of yield—consciously omitting all considerations of a more fundamental nature touching the substantial justice of taxation.

I. Adaptability to Revenue Demands

Theoretically, the administration of the budget calls for a revenue system composed of certain main sources which are relatively stable and dependable, and which do not require adjustment or change from year to year. Additional revenues should be obtained, as needed, by adjusting the rate of return from minor sources. In this way, conceivably, revenue increases could be made possible with little or no disturbance of existing conditions. As a general thing, municipal expenditures do not increase from year to year at a rate exceeding 10 per cent. In theory, the most satisfactory way of handling such an increase would be to increase the yield of one or more of the less important sources of income without tampering with the principal source.

In American practice no such rule is followed. Up to the present time cities have been depending largely upon increasing the returns from the general property tax, either by raising the rate, or, if that was not legally possible, by raising the basis of assessment to some point nearer the true valuation. Other sources of revenue are only occasionally considered as available to meet the requirements for more money. In fact, it is only when the general property rate has been increased to the legal limit, and the basis of assess-

ment raised to 100 per cent, that the cities begin to look around for other sources of additional revenue. The city is thought to be in rather desperate financial straits when the administration is forced to consider anything but the general property tax as a means of raising more revenue.

The general property tax, which is thus made the principal equalizing element in the revenue system, is, at the same time, the main dependence of American cities. Taking the cities of the country as a whole, the general property tax produces over 60 per cent of the annual municipal revenue. As the tax is administered in most cities, it amounts practically to a tax upon real property, since the yield from the personal property tax constitutes a small and decreasing proportion of the total income. The result is that the owners of real property, paying more than half of the total income of the city, bear in the first instance the direct burden of every increase in expenditure. In most large cities the land-owning population constitutes from a sixth to a third of the voting population. The number of real property taxpayers is, therefore, relatively small. The burden of increased budgets thus falls upon a small element in the community, who, because they contribute so largely to the financial support of the city, not unnaturally feel that they are being unjustly treated.

Moreover, in most cities the real estate fraternity is strongly and compactly organized, and consequently in a position to hamper plans for administrative development that call for added expenditures. Taxpayers' organizations which undertake to criticise the work of city administrations perform a useful public service. But when the sole standard by which the acts of the local government are judged is the amount of immediate expenditure that will be involved, the result is likely to be mere obstruction, regardless of ultimate public benefit. It is highly desirable that an administration, on extravagance bent, should be effectively checked, but, by the same token, the administration that is sincerely attempting to promote the best interests of the community should not be hindered and restrained through fear of arousing the taxpayers' ire by reason of an increased tax rate. The fact that practically every American administration is subjected to just this fear is due, in part at any rate, to a lack of flexibility in the revenue system. It does not respond properly to legitimate demands for expansion.

The remedy is easily effected—on paper. It is only necessary to establish the general property tax at a flat rate, which could be retained year after year without change. Increased revenue from the general property tax would then arise only through an increased property valuation. The needed increased revenue from year to year could be obtained by increasing the rate of some other tax, or by levying a tax upon some new class of objects. In this way the real property owners would be able to estimate for a reasonable period of time in advance exactly what their contribution to the public treasury would amount to. They would not be subjected to the harrowing experience of discovering each year that the tax rate had been raised, and that they were required to shoulder an even larger share of the city's financial burdens. The constricting influence of the property owners on the plans of the administration would be somewhat lessened, and an elasticity given to the city's finances that would open the way for constructive programs of public improvement that would be of lasting benefit to the community.

Given complete local autonomy in matters of finance, a program similar to the one suggested above might be practicable. The general property rate could be fixed at some point near the customary rate, and held there during a period of years. The problem of raising needed additional revenue would then probably have to be solved by the imposition of some new tax. There is no tax or source of revenue, other than the general property tax, in the systems of most American cities that lends itself readily to annual adjustment and manipulation in the interests of additional income. The most important sources of revenue, aside from the property tax, are the proceeds of special assessments and the earnings of public service enterprises. Naturally the latter consist chiefly of the income from water rents, and this revenue is in most instances devoted directly to the support and extension of the water supply system, or in other ways sequestered, and not available for general purposes. Special assessments, from the nature of the case, expand and contract as the need for them demands, and cannot be considered as part of the general revenue system. Taxes other than the general property tax, usually various license and business taxes, are not wholly adaptable to the purpose of annual adjustment, because it does not necessarily follow that an increased rate

will result in increased revenue. Moreover, in a considerable number of instances, the chief of these special taxes, the liquor tax, is imposed by the state, and the administration of the tax is either in the hands of state agents, or directly under the control of the state legislature. State subventions and grants are, of course, wholly out of the question. The other sources of municipal revenue yield such a trifling proportion of the total income that they could not be used successfully to produce the required amounts of additional revenue.

It is not possible within the limits of this discussion to consider all the possible new sources of city revenue. It is suggested, however, that as an equalizing element in the construction of the revenue side of the budget, a local income tax would be probably as satisfactory as any other. From the restricted viewpoint of budget administration, the income tax would prove an admirable balance-wheel. It would not be necessary to use the tax to raise large sums. It would be resorted to only for the excess revenue not provided for in other ways. The tax would probably never have to produce over 10 per cent of the total revenue. For this reason a rate could be fixed so low that it would not be a serious burden to anyone. At the same time the exemption limit could be placed sufficiently low to include a considerable proportion of the income-earning population, so that the burden of a slight increase in the rate from year to year could be distributed among a comparatively large number of persons. A change in the rate of a tax such as the income tax could be depended upon to bring about a corresponding change in the revenue derived. Moreover, a change could be effected without seriously upsetting the established economic and social order. These considerations commend the adoption of the income tax to provide the needed element of flexibility in the local revenue system.

It is recognized, of course, that the adoption of the income tax, or for that matter of any other new source of revenue, as a generally accepted element in American municipal finance is hardly practicable. The chief obstacle is found in the legal fetters that bind the cities in matters of finance. An objection fully as powerful, as far as an income tax is concerned, lies in the fact that the American public is not prepared to accept the income tax as a proper source of municipal revenue. The proposal for a municipal income tax is

therefore not offered as an immediately practical solution of the present illogical practice of calling upon the general property tax for every needed increase in revenue. However, it is doubtless a fact that this practice is the only thing that can be done with conditions as they actually exist. But this does not change the fact that the system is illogical, nor necessarily act as a bar to the consideration of possible remedies.

II. Certainty of Yield

The second important characteristic of a good tax or source of revenue from the standpoint of the budget is certainty of yield. The budget is an estimate of expenditures, and an estimate of revenues. If these estimates, either on the side of income or outgo, are not borne out by future results the budget system will fail, since the city administration will be burdened with financial embarrassments which it is the function of the budget to obviate. It is, therefore, of great importance that estimated revenues actually accrue.

In formulating the basis for an estimate, the most dependable indicator is past experience. If the income from a certain source has, in the past, been steady and regular, it is fairly safe to assume that it will remain so, and that the amounts realized in past years can be counted on for the future. The same confidence could be reposed in the estimate if there had been a reasonably steady increase or decrease, or if past fluctuations could be traced to causes the future operation of which could be foreseen. In this connection, it may be worth while to examine in more detail some of the more important sources of municipal revenue, actual or possible, in regard to their adaptability to an accurate estimate of future results.

1. The General Property Tax. In the strict sense of the word, the revenue from the general property tax is not estimated in American municipal budgets. The income from all other sources is estimated, and it is then assumed that the property tax will yield the necessary amount to make up the remainder. Thus, when it is determined how much can be expected from other sources, the remainder is divided by the total property valuation, and the resulting tax rate imposed. The revenue budget is then complete, on the assumption that the property tax yield will be 100 per cent of the levy.

In the case of the tax on real property, this assumption is not wholly unjustified. For reasons that it is not necessary to consider here, it is the usual experience that a large proportion of the real property tax is actually collected during the year of the levy, or is collectible soon after. The experience of the city of New York may be cited as an illustration of the relative certainty of the revenue from the real property tax. The following statement shows, for the period of five years, 1909 to 1913 inclusive, the percentage of the original levy remaining uncollected at the end of 1913, the percentage that had been written off on account of discounts, cancellations, or deductions, and the percentage of the net collections:[1]

	Percentage of		
	Uncollected balance	Deficiencies written off	Net collections
1909	1.16	2.99	95.85
1910	3.08	1.83	95.09
1911	4.09	1.30	94.61
1912	5.60	0.86	93.54
1913	15.18	0.93	83.89

These figures indicate quite a remarkable stability of yield. The average percentage of net collections to total levies for the four years previous to 1913 was, at the end of that year, almost 95. There is, of course, a steady decline as the final date is neared, but the difference between 1909 and 1912 was only 2.31 per cent. There is a sharp falling off in 1913, but it should be borne in mind that the second half of the property tax is not due till November 1, and to have collected over 80 per cent two months after the last installment was due is not a bad record.

The experience recorded above is fairly typical, and upon this evidence may be based the general conclusion that the real property tax is fairly satisfactory from the standpoint of an accurate forecast of future results.

[1] Figures taken from report of Department of Finance and Bureau of Municipal Research, New York, 1915, on *Revenues and Expenditures, 1910 to 1914*, inclusive. Page 222.

As has been pointed out many times elsewhere, the personal property tax is not a satisfactory tax as regards the budget estimates. Whatever certainty there may be in relation to this tax is a certainty that it will not produce as much as the levy calls for. Properly speaking, an estimate of the yield would be in effect an estimate of how great the deficiency would be. It has universally proved practically impossible to collect a respectable percentage of the total levy. In this connection, the experience of New York is interesting, though not wholly typical. New York exempts large classes of personal property which, if an attempt were made to levy and collect taxes on them, would materially increase the percentage of the deficiencies. As a general indication, however, figures similar to those just cited for the real property tax are given here for the personal property tax:[2]

	Percentage of		
	Uncollected balance	Deficiencies written off	Net collections
1909	31.96	7.31	60.73
1910	22.43	7.47	70.10
1911	23.67	5.51	70.82
1912	29.23	0.96	69.81
1913	35.30	0.65	64.05

These figures show that for the three middle years, 1910–1912, there was a fairly consistent collection of about 70 per cent of the levy. The year 1909 was a poor year, with only 60 per cent collected five years after the levy had been made. But the results seem to show that 70 per cent is about all that can be expected. If this assumption should be made, and the inevitable deficiency made up in some other way each year, the results might not be so serious. But as a matter of fact, it is assumed each year that the whole amount will be collected, and the uncollected balance is either added to some later budget or made up by the issuance of bonds. The combined real and personal tax deficiency in the city of New York for the years 1899 to 1913, inclusive, was $77,478,043.99. Of this total, $41,259,855.04, or 53.2 per cent, was personal tax deficiency, in spite

[2] *Op. cit.*

of the fact that the total personal levy for the same period was only 8.4 per cent of the total levy, for personal and real property combined. These facts serve to emphasize the fact that in comparison with the real property tax the personal property tax is an undesirable tax when considered in relation to budget administration because of the uncertainty of the yield and the difficulty of collection.

2. Other Revenues. Of the other sources of revenue resorted to by American cities, special assessments and state subventions may be dismissed without comment. The only other important revenue, from the point of view of the amount of the yield, is the revenue of the water supply system, and other public service enterprises. In regard to these revenues, it should be noted that only in exceptional instances do they yield a real income to the city, over and above the actual cost of carrying on the enterprises. It is, nevertheless, necessary and important that the income from these sources be accurately estimated. As a matter of fact, there should be no serious difficulty about this. Once an enterprise is firmly established it should be possible to estimate the revenue from it with a sufficient degree of accuracy for all practical purposes. The income from water rents, for instance, is steady and dependable. To be sure, the early financial officers of New York made serious miscalculations in regard to this revenue when they diverted it in perpetuity to the support of the sinking funds, with the result that enormous amounts of money have been and are being tied up, and have only recently been released by a virtual evasion of the law. Such an error, however, was due directly to lack of experience, and would not have resulted seriously had it been possible to correct it when the actual situation was realized. Once a basis of experience is established, there is nothing inherently difficult in estimating the probable revenue from any public service enterprise. The volume of business is not subject to marked fluctuations on account of economic conditions, the gross revenue can be forecast without difficulty, the costs of operation soon become standardized, and the net revenue is therefore easily deducible.

The importance of the various minor municipal revenues does not warrant an extended discussion. It may be interesting, however, to review the experience of the three years, 1912 to 1914 inclusive, in New York with certain of the more important of the minor revenues of that city. The revenues included are the bank

tax, mortgage taxes, county clerk's fees, county register's fees, and interest from overdue taxes. The following table shows the amounts estimated at the beginning of each year compared with the amounts actually collected during that year for each of the sources of revenue:

		Bank tax		Mortgage taxes		County clerk's fees	
		Total	Per cent difference	Total	Per cent difference	Total	Per cent difference
1912	Estimated Revenue...	$3,500,000.00		$1,200,000.00		$120,000.00	
	Collected Revenue ...	3,489,313.67		1,290,479.75		131,387.80	
	Difference.....	− 10,686.33	0.3	+ 90,479.75	7.5	+11,387.80	9.5
1913	Estimated Revenue...	3,400,000.00		1,100,000.00		205,000.00	
	Collected Revenue....	3,600,728.73		1,518,694.77		197,202.98	
	Difference.....	+200,728.73	5.9	+418,694.77	38.1	− 7,797.02	3.8
1914	Estimated Revenue...	3,500,000.00		1,000,000.00		190,000.00	
	Collected Revenue....	3,629,408.92		1,130,545.28		200,559.36	
	Difference.....	+129,408.92	3.7	+130,545.28	13.1	+10,559.36	5.6

		County register's fees		Interest on overdue taxes	
		Total	Per cent difference	Total	Per cent difference
1912	Estimated Revenue.....	$310,000.00		$1,600,000.00	
	Collected Revenue.....	310,279.90		1,967,473.34	
	Difference.....	+ 279.90	0.1	+367,473.34	23.0
1913	Estimated Revenue.....	305,000.00		1,700,000.00	
	Collected Revenue.....	286,887.76		2,703,489.91	
	Difference.....	− 18,112.24	5.9	+1,003,489.91	59.0
1914	Estimated Revenue.....	300,000.00		2,300,000.00	
	Collected Revenue.....	270,854.97		1,819,587.19	
	Difference.....	− 29,145.03	9.7	− 480,412.81	20.9

The greatest percentage of variation from the estimate appears in the cases of the mortgage tax and the revenue from interest on overdue taxes. The yield of both of these sources showed rather marked fluctuations from year to year, as might have been expected, since they both depend, in a measure, upon general business and economic conditions. In the case of the other taxes and revenues,

the percentage of difference between the estimate and the yield was never greater than 10 per cent. The returns from the bank tax and the register's fees were regular and fairly dependable, the former steadily increasing, and the latter steadily decreasing.

It is interesting to note the apparent effect of each year's experience upon the estimate for the next year. In the case of the interest returns, for instance, the large excess of receipts over the estimate in 1913 (59.0 per cent), was doubtless in part responsible for the increased estimate in 1914, which, coupled with a sharp falling off in receipts made a deficiency of over 20 per cent. This is an excellent illustration of the difficulty with an uncertain revenue. If the estimate for 1913 had been continued in 1914 the results would have been much more satisfactory. But there was no certain way of predicting the marked decline in returns in 1914, and the estimate was a guess, based in part on 1913 results, which did not materialize the next year.

The results with the bank tax were more satisfactory. In 1912 the yield was a trifle below the estimate. The estimate in 1913 was reduced by $100,000. At the same time the collections increased so that there was an excess of over $200,000. This experience justified a return in 1914 to the 1912 estimate, and the tax, not being subject to violent fluctuations, continued to yield more than $100,000 in excess of the estimate.

As a general rule, it is probably better to have the results exceed the estimates, as a whole, than to have an appreciable deficiency. But the margin between estimates and collections should not be great in either direction. Moreover, the discrepancy need not be great with a properly constructed tax system. The operation of a tax should not be uncertain. If a large deficit is created by reason of the failure of certain sources of revenue, it must be made up, frequently by issuing bonds, to the detriment of future taxpayers. On the other hand, a substantial surplus may lead to extravagance. In actual practice, however, as in the case of New York, a general surplus in any one year would be applied to the reduction of taxes for the following year, so that there would be no danger of an accumulating surplus. Moreover, as a matter of fact, the difference between estimated expenditures and revenues and actual expenditures and revenues is not sufficiently great in any one year to cause serious embarrassment. As has been noted, however, the cumu-

lative deficiencies in the collection of the general property tax has, in New York, required the resort to long term bonds to cover at least part of the loss.

It is fair to conclude that the revenue systems of American cities, as a general rule, have proved more satisfactory from the standpoint of certainty of return, than from that of flexibility. The typical municipal revenue system needs the greater flexibility which might be obtained by the introduction of some form of taxation the rate of which might be varied from year to year without causing either great economic disturbance, or widespread popular opposition. On the other hand, the real property tax, the backbone of the system, has proved reasonably satisfactory with regard to the sureness with which results can be counted on, and the various minor revenues can be forecast with sufficient accuracy to avoid serious discrepancies between budget estimates and actual collections.

SOURCES OF REVENUE

By Herbert S. Swan,

Expert Investigator, Committee on the City Plan, New York. Formerly Expert Investigator, Commission on New Sources of City Revenue.

Real Estate Tax. The backbone of the revenue system of American cities is the tax on real estate. In the average city the tax levy on ordinary land and buildings is more than four-fifths of the general tax levy and yields more than half of the total revenue. These proportions, of course, vary in different cities. In Augusta, Georgia, for instance, the levy is but three-fifths of the general levy and yields only one-fourth of the total revenue. In New York, on the other hand, the levy on ordinary land and improvements constitutes nine-tenths of the total property levy and produces two-thirds of the entire revenue.

As the real estate tax is the most important source of revenue, the method of its assessment and levy merits the most serious attention. The scientific assessment and taxation of real estate is obviously the first step to be taken by a city in any attempt to improve its financial condition.

Limitations on Tax Rate. The tax rate should always be fixed by budgetary requirements, not by statute. If the fixed tax rate is larger than that required by a city, it will result in extravagance and waste. If it is too small, it will result in the throttling of necessary expenditure; or in the tapping or retention of undesirable sources of revenue; or in the borrowing of money for current account. A congressional committee recommended the repeal of the fixed tax rate in Washington in 1912.

A limited tax rate is only less harmful than a fixed tax rate. The cities of Ohio are at present having serious financial difficulties on account of the statutory limitations imposed on the tax rate. The limitations on the tax rate in Massachusetts were found so ineffective in their design and so irksome in their operation that they were repealed in 1913. The only city in the state that has a limited tax rate at present is Boston.

Semi-Annual Collection of Taxes. Taxes should be collected semi-annually, the first installment at the commencement of the fiscal year and the second six months later. This policy has three advantages: (1) it effects a large saving in the interest paid on temporary loans issued in anticipation of taxes; (2) to the extent that such loans are reduced the market for long term borrowings is improved,—the capital available for investment in city bonds is increased; (3) it diminishes tax delinquencies by permitting property owners, unable to pay their whole tax, to pay half and to go into arrearage for the other half.

Tax Discounts. No discount should be allowed for the payment of taxes. The best way to secure prompt payment of taxes is to charge a high interest rate on those remaining unpaid after a fixed date. If a discount is granted, the tax budget will have to contain an appropriation equal to the amount of the discount. If all taxpayers could take advantage of the discount to the same extent, the result would be nil—the rebate allowed each property owner would exactly offset the amount of his additional tax. But all property owners cannot avail themselves of the discount. The result is that the taxpayers availing themselves of it are favored with a differential tax rate at the expense of those who don't.

Full Value Assessments. All real estate should be assessed at full value. With true value as the basis of assessment, over-assessments and underassessments are more apparent and, therefore, more easily corrected. An accurate assessment based on a percentage of true value entails a greater amount of work on the assessor than a full value assessment. He must first ascertain the full value and then proceed to calculate the percentage of assessment. A full value assessment saves this computation.

Assessment at part value, moreover, gives a low tax rate the appearance of a high one. This artificial stimulation of the tax rate results either in the non-performance of much necessary work, or in its payment out of borrowed money when it should really be charged to current revenue. The borrowing power of cities has as a consequence of this policy been seriously abused. When assessments are at, say 20 per cent of true value, as they are in many cities, the temptation to borrow for current purposes is almost irresistible. A 1 per cent levy on true value when translated into terms of a rate on such an assessment becomes a 5 per cent tax.

Annual Assessments. Assessments should be made annually, not biennially or triennially. An annual assessment of real estate greatly improves the administration of the assessing department. The assessors being practically the whole time in the field become experts in valuation. This secures uniformity of assessment. The annual assessment of real estate, moreover, increases the revenue of a city in that the increment in land value is intercepted every twelve months instead of every two or three years. It is also true that if real estate is not assessed annually, land of a declining value will be over-assessed a large part of the time. Biennial and triennial assessments necessitate large and abrupt increases in the assessment of property rising in value. This excites much dissatisfaction among owners. Annual assessments to a large extent overcome this difficulty in that the increases are smaller and more gradual.

Separate Assessment of Land and Buildings. It is most important that land and buildings be assessed separately. Unless this is done a scientific assessment of real estate is impossible. Land tends to appreciate in value; buildings to depreciate. This fact makes it necessary to assess the two by different standards. To value both together inevitably results in an unequal assessment of property.

Not more than half of the cities with a population exceeding 30,000 assess buildings and land separately.

In the cities that do make separate assessments the greatest divergency is found in the per capita land and building values. Taunton, for instance, has a per capita land value of only $147. San Diego has a per capita land value of $2,130. In Manhattan the per capita land value is $1,258, and in New York as a whole only $840. In Atlantic City it is $1,089; in Los Angeles, $1,100; and in San Francisco, $1,380. These cities illustrate the extreme. In the average city it is less than $400.

The assessed building value per capita ranges from $140 in Perth Amboy to $750 in Newton. In the average city it is between $300 and $500.

Methods of Assessment. An improved parcel scientifically assessed will usually not be assessed at a higher figure than its capitalized rental unless the land value alone exceeds this sum. Its assessment, moreover, will ordinarily not be raised on account of an

increasing land value, except where such increased value results in a larger rental.

No building should be assessed at more than the difference between the value of the land and the aggregate value of the land and building. The value of new buildings should be computed by applying appropriate factors of value per square foot of floor space to the entire floor surface. The factor chosen in any particular case should be adjusted among other things with reference to the kind of building, the height between floors, the state of depreciation and obsolescence, and the per cent of lot area covered.

Land Value Maps. Land value maps should be published annually. These maps show the value per front foot of inside lots on grade and of standard depth on each side of every block in the city. In the case of unplotted land they show the acreage value. Maps of this character aid: (1) the assessor in making equitable assessments by presenting him with a view of all his territory with comparable figures on every street; (2) the board of review in passing upon applications for a reduction of assessments; and (3) the public in judging the fairness of the assessments.

Land value rules should be utilized in computing the assessments of lots of irregular depth and shape. Such rules are used by Cleveland, Newark and New York.

Tax Maps. Tax maps showing the boundaries and dimensions of every lot are indispensable to an accurate assessment of land. Without their aid it is impossible to be certain whether all real estate has been assessed. Where they are not used considerable property escapes all assessment and taxation.

Tax maps are not found at present in most of the smaller cities and towns.

Exemption of Buildings. There is a movement on foot in many cities at present to exempt improvements from taxation. The policy has so far been adopted in part by only two cities, Pittsburgh and Scranton.

Exemption can be most readily effected in cities with a rapidly increasing land value and a small improvement value as compared with the total real estate value. Given this condition the untaxing of buildings would mean only a slight increase in the present tax rate on land values and this could be done without seriously inconveniencing either the city's finances or private property rights.

This is especially true of such western cities as Berkeley, Los Angeles, Oakland, Sacramento, San Diego, San Francisco, Seattle, Spokane and Tacoma. In all these cities the assessed land value is almost double or more than double the assessed improvement value. In San Diego for instance, improvements are assessed at but 17 per cent of the total real estate. The land tax, therefore, produces almost five times as much income as the building tax. The improvement levy yields less than 8 per cent of the total municipal revenue. The land levy yields 35 per cent of the total revenue. San Diego is, however, an extreme case. In the other cities named above the improvement levy yields from 15 to 20 per cent of the total revenue, and the land levy from 30 to 40 per cent of the total revenue. It is doubtful whether any city in the United States derives less revenue from the taxation of improvements than San Diego. This city is, therefore, the logical place in which first to exempt improvements from taxation. In no city, however, do land values contribute a greater share of the total revenue than in New York. That city derives 41 per cent of its total revenue from the tax on ordinary land values. The tax on improvements contributes 25 per cent of the total income.

The relation of land value to total real estate value varies enormously in different cities. Generally speaking it fluctuates between one-third and one-half of the real estate value. But in Chelsea, Everett, Pawtucket, Taunton, West Hoboken, and Woonsocket, the assessed improvement value is twice or more than twice the assessed land value. Taunton, for instance, derives only 11 per cent of its revenue from the taxation of land values while it derives 25 per cent from the taxation of building values. West Hoboken, Chelsea, Woonsocket, and Everett derive 13, 15, 17 and 19 per cent of their revenue respectively from the taxation of land values; and 29, 30, 34 and 38 per cent respectively from the taxation of improvement values.

Cities deriving such a large percentage of their revenue from improvements would obviously have great difficulty in exempting them from taxation. Exemption wherever effected will, as a rule, have to be very gradual or the municipal finances will be seriously embarassed.

Special Assessments. Some cities derive as much revenue from special assessments as from the general property tax. They are

most freely resorted to in western cities. There the limitations on the debt incurring power are frequently so stringent as to render loans for improvements impossible and the tax limit so low as to make their payment out of the tax budget out of the question.

Assessment of Street and Park Openings. Any public improvement conferring a local benefit should be assessed. The assessment should be limited only by the cost of the improvement and the amount of benefit. No part of the cost should be assumed by the city where the local benefit is sufficient to pay the whole expense.

Assessments for street openings are more general than those for park openings. In the acquisition of parks, however, Kansas City assesses the entire cost. Denver, Indianapolis, and Minneapolis assess a substantial part of the cost. Before 1855 it was the practice in New York to assess the entire cost of park openings. During the next twenty-five years from one-third to one-half of the cost was assessed. Since 1880 the city has assumed practically the entire cost. Only within the last few years has an attempt again been made to assess the cost of parks.

The best procedure governing assessments for street openings is probably found in New York.[1] The Board of Estimate and Apportionment has the power to fix the benefit area. The benefits may be apportioned between districts of special benefit, one or more boroughs, or parts of boroughs, and the city at large. Levies against one or more boroughs or the city at large are in the nature of flat rate assessments and collected with the annual real estate tax. The rules controlling the benefit area and the apportionment of assessments in street openings are most elaborate. Lack of space forbids a detailed account of them here.

Assessment of Physical Improvements. The cost of local improvements, pavements, sidewalks, water and sewer mains, etc., should be assessed only in those cases where the work adds to the city's capital account. In other words such assessments should be limited to the original improvement unless a subsequent improvement is of a higher standard than the original. Then the cost of the subsequent improvement, in so far as it is of a superior grade than the first, might be assessed.

Only the first improvement confers a local benefit; the subse-

[1] Nelson P. Lewis, *Paying the Bills for City Planning*, Proceedings, Fourth National Conference on City Planning, 1912.

quent improvements, unless they are of a better quality, merely maintain the benefit conferred by the first. If this principle is not acted upon, assessments for local improvements will in effect have to be made a regular source of city revenue. This would be most unfortunate. It would result, as it were, in the creation of as many special taxing districts as there are separate improvements. The land values in the central part of the city are due quite as much to the activities of the people living in the suburbs as to those living in the heart of the city. It is consequently only just and fair that the cost of subsequent improvements should be provided for in the annual budget. In a large city the amount of work required each year is fairly regular. Its payment in this manner would consequently not impose any greatly fluctuating charge on the tax rate.

To have the contractor act as the collector of assessments increases the cost of improvements as in making his bid he must discount the probability of the less valuable properties being unable to bear their assessments.

The contractor should be paid during the construction of the improvement as the work progresses. To defer payment until the improvement's completion obliges the contractor to include an added amount for interest charges in his bid. This practice also reduces competition for city work. Contractors unable to command sufficient credit to finance the work to its completion are eliminated from the bidding.

Payment should be made, not in warrants or assessment bonds, but in cash. Paper issued to contractors is usually not sold at par. The amount of discount, which varies from 5 to 10 per cent, is, of course, added to the prices bid.

The maintenance of a revolving fund, replenished by assessments as they are collected, is probably the best method to enable the city to pay cash for its physical improvements.

Excess Condemnation. Every city should acquire the right of excess condemnation in undertaking public improvements, especially in the laying out of new streets and in the widening or extension of old ones.[2] The financial advantage that will accrue to the city from the exercise of this right will be found quite as much in the

[2] For an exhaustive discussion of excess condemnation see the report prepared by the present writer for the National Municipal League, and published by the New York Committee on Taxation, 1915.

increase of the taxable values due to the economic replotting of areas adjacent to such improvements as to the profits derived from the resale of surplus land. The land adjacent to a street is generally divided into plots the shape and size of which are adapted, as well as might be to the street's present use and condition. Widening a street, or laying out a new one in a built-up quarter disturbs this equilibrium. Not only are the existing buildings destroyed, but the abutting lots, after the work's completion, are frequently left so distorted in shape and so dimunitive in size as seriously to impair, if not utterly to destroy, the proper use and development of the thoroughfare. For such a street to attain its natural importance it is necessary that the land fronting upon it should be wholly rearranged and replotted.

There are many instances in our cities where street improvements have appropriated all but ten or twenty square feet of large lots. Remnants of such size are not only useless themselves, but they also keep other lands to the rear of them from being utilized to their best advantage. The present practice in making street improvements instead of enhancing the values of adjacent land frequently militates against its best economic use as actually to depreciate the taxable values.

Under excess condemnation, the city might, in addition to the land requisite for a thoroughfare, appropriate these small parcels, obliterate the existing lot lines, and replot the frontages of the street in a manner conducive to its most wholesome development. The city would be in a far better position than the private owners to replot these injuriously affected plots. The cost, moreover, of acquiring the additional land would be negligible. When so much of a lot has to be taken as to leave the remainder practically worthless, the price that must be paid for the appropriated part is, as a rule, as great as the market value of the whole.

New York, Massachusetts, Ohio and Wisconsin have adopted constitutional amendments to enable their cities to exercise excess condemnation.

The Unearned Increment Tax. The unearned increment tax is the most fruitful new source of revenue that can be adopted.[3]

[3] For a more complete discussion of this tax see the article by the present writer, entitled "The Unearned Increment Tax," in the *National Municipal Review*, April, 1914.

The scheme worked out by the New York Commission on New Sources of City Revenue for the taxation of the unearned increment is at once a model of simplicity and applicability to American conditions.

Briefly stated, this plan proposed to assess and tax annually all increment accruing in the future in the same manner as existing site values are now assessed and taxed. No heed is paid to sale or transfer of title in the imposition of the tax. The site value, as determined by the assessor for the year the tax goes into effect, is made the standard by which to measure all future increment, the assumption being that the valuations fixed by this department fairly reflect the current market values. Taxation of the increment in no wise exempts or relieves a parcel from payment of the ordinary real estate tax, the new tax being an addition thereto, although imposed only on that portion of the site value accumulated after the basic year.

If the assessed site value of a parcel, for instance, should be increased $10,000 above the assessment of the basic year, the owner would pay an annual surtax on the amount of this increment in addition to the regular tax on the total value of his site.

Increment arising from improvements, such as grading, sewering, paving, etc., the cost of which has been borne by the owner, is, to the extent of such cost, deducted from the increment assessed. The increment assessed in any particular year is, therefore, the difference between the site value assessment for that year and the site value assessment for the basic year, after deducting the cost of improvements made during the interim. To illustrate: if the value of a piece of land should rise from $100,000 in the basic year to $110,000 after the basic year, and the owner could show that he had spent $4,000 in permanent improvements, either upon his own initiative or in payment of special assessments levied by the municipality, he would be taxed on an increment of only $6,000; and the base value of the land for the future assessment of increment would thenceforth be $104,000 instead of $100,000.

Examined from every point of view, the tax recommended by the Commission on New Sources of City Revenue is an infinite improvement over the English or German method of taxing the increment in site values. It differs most radically from the tax in either of these countries. In England and Germany the state in

consideration of a lump sum payment parts forever with its right to appropriate these unearned values. Under the suggested plan the state would retain a rent charge in perpetuity on all increment.

As a revenue measure, the proposed tax has a vast advantage over the English or the German tax. As applied in these countries the revenue produced by the tax is almost entirely dependent upon the real estate market, and, therefore, subject to the most violent fluctuations.

The tax recommended by the commission would produce a revenue which in its amount would be easily calculable from year to year. Its yield, moreover, in addition to being steady, would increase in amount. The Department of Taxes and Assessments estimates that site values in New York City increase at the rate of 4 per cent per annum. The proposed increment tax at a rate of 1 per cent would reduce this increase to about 3½ per cent. Assuming this rate of increase to continue, the proposed tax would in thirty-two years yield a revenue equal to a 2 per cent tax on the present assessment of ordinary land values.

Personal Property Tax. The personal property tax should be abolished. In some cities this could be done immediately without any great financial inconvenience. Personal property in New York, for instance, constitutes only 3 per cent of the general property assessment and yields only 2 per cent of the total revenue. Most cities, however, derive a much larger income from personal property. the levy in such cities as Chicago, Cincinnati, Cleveland, Detroit, and Minneapolis, constitutes between 25 and 35 per cent of the total general property levy. In these cities the abolition of the tax would probably have to be effected very slowly.

No increased revenue is to be expected by taxing personalty at a low rate. The experience of Connecticut, Iowa, and Minnesota proves this.

Business Taxes. The imposition of business taxes as a source of revenue is not to be commended. If large in amount they are apt to affect the business of a city most unfavorably, even to the extent of completely driving it away. They are also undesirable in that they confer a monopoly advantage upon those able to pay the tax by rendering certain businesses inaccessible to the poorer classes.

Licenses. Licenses should be confined to such businesses as require inspection and regulation under the police power. The

cost of necessary supervision should fix the amount of the fee charged. A fee in excess of the cost of regulation would be very much in the nature of a tax.

Permits, Privileges and Concessions. All permits, privileges and concessions should as a general rule be let at public auction. No free privileges should be granted. The fee should be of a fixed amount and collected periodically. It should not be based on the net or gross receipts of the business. This plan has been tried in different cities and is thoroughly discredited. A city to administer it successfully would have to employ a large staff of accountants and detectives.

Departmental Fees. Fees charged for departmental services should not exceed the amount necessary to make their respective departments self-sustaining.

Municipal Enterprises. Municipal enterprises, waterworks, electric light plants, gas plants, etc., should not be operated for profit. The rates charged should conform to the cost of service, including of course, the interest and amortization charges. To charge more than this results in unequal and inequitable taxation.

ACCOUNTING BASIS OF BUDGETARY PROCEDURE

By WillB. Hadley,

Chief Accountant, Department of City Controller, Philadelphia.

An accounting system to properly supplement budget procedure must provide for such an analysis of actual and estimated expenditures and receipts that the official and the citizen may pass judgment upon the plans proposed for the new year by a comparison of actual expenditures and receipts in past years with the estimated expenditures and receipts for the coming year.

Such an accounting system has been developed in Philadelphia by City Controller Walton, who began January 1, 1911, to analyze expenditures by fund, organization unit, function (or activity), character and object. These classifications are indicated in the following outline:

Fund—General, Loan, Special and Trust.
Organization Unit—City Treasurer, Bureau of Water, Sheriff, etc.
Function—Fire Fighting, Isolation of Contagious Diseases, Construction of Sewers and Inlets, etc.
Character—Expenses Incurred and Payment of Funded Debt:
Administration,
Operation,
Maintenance,
Debt Service and
Other Expense.
Property Acquisitions.
Net Changes in Working and Current Assets:
Stores,
Postage and transportation,
Reductions in Current Liabilities,
Abatements of Revenue and
Expenditures on Account of Prior Years.
Object—Personal Services,
Services Other Than Personal,
Materials,
Supplies,
Equipment,
Structures and Non-structural Improvements to Land, Land,
Rights, Obligations and Payment of the Funded Debt,

Fixed Charges and Contributions, and
Pensions and Retirement Salaries,
Losses and Contingencies

The above sub-head titles are complete under fund, character and object. Under organization unit and function only illustrations are given as the complete list of these two classifications would take considerable space. They are both given in full in City Controller Walton's budget statement for the year 1916.

Probably interest centers more closely upon the expenditure side rather than the receipt and income side of budget accounting. Expenditure classifications for budget purposes should cover at least a three-year period, namely: (1) the expenditures of the last completed year, (2) the appropriations of the current year, (3) the expenditures of the current year to as late a date as obtainable, (4) the estimated expenditures for the remainder of the current year, and (5) the departmental estimates for the coming year for which the budget is being prepared. These several groups of figures must be subjected to a common classification in order that they may be comparable. When so presented the eye can readily follow the changes from one year to another and can note the changes in the object of expenditure, in the character of expenditure, in the function (or activity), in the organization unit and in the fund. Any of these changes may be significant.

In the object classification, for example, an increase in personal services, materials and supplies and a decrease in services other than personal would mean that more of the city's work was to be done by administration and less by contract. A decrease in rentals and an increase in property acquisitions would indicate expenditures for permanent properties to replace leased properties, thereby reducing the fixed charges for rentals.

In the character classification a marked falling off in maintenance may indicate that properties and equipment are not being properly maintained. Large expenditures for property acquisitions should be reflected in increased maintenance expenditures to provide for the upkeep of the newly-acquired properties. Increase in operation may be the result of an expansion of the existing functions (or activities) or the taking on of new functions not previously performed by the city government.

The relative use of loan moneys for current expenses and reve-

nue moneys for permanent improvements and property acquisitions is clearly set forth in the fund expenditure classification. The classification by organization unit shows the expenditure for each department and bureau and the classification by function (or activity) shows the expenditures, actual or estimated, for each one of the many functions of the government of the city.

In order to have available for budget purposes the actual expenditures for the last completed year, it is necessary to keep expense, stores and property ledgers, together with a complete analysis of expenditures by the foregoing classifications. These analyses can be best secured by punching the information upon cards and sorting and tabulating the results thus obtained by means of machines. What would ordinarily be a very tedious task, if done upon analysis sheets, thus becomes a very simple one and the results are secured in a minimum of time.

General account receipts are presented in the budget in a statement which shows the actual receipts of past years and the estimated receipts of the coming year for which the budget has been prepared. In the budget for the city of Philadelphia referred to above, the estimated general account receipts are presented in two ways, *viz.:* (1) the departmental estimates of what will be received, the purpose of which is to show any discrepancies in the five-year average, (2) the five-year average made by the city controller as required by act of assembly, which estimate limits the amount of general funds which may be appropriated by city councils. In addition to this annual estimate there is usually a fund surplus available at the closing of the year's books, arising from an excess of the actual receipts over the estimated receipts and from merging balances of appropriations. These are the only sources from which general funds may be secured for appropriation, with the exception that city councils may authorize a temporary loan not exceeding $1,200,000 redeemable in four months.

The amount of loan funds that becomes available for appropriation each year depends upon the increase in the assessed valuation of taxable property, upon changes in the gross amount of funded debt outstanding, upon the increase in the amount of city loans held as investments by the commissioners of the sinking fund and upon changes in the status of other liabilities of the city.

Special and trust funds become available for appropriation

through the receipt by the city treasury of money for special and trust purposes, being appropriated then only for those specific purposes, for which it was received.

In addition to classified statements of expenditures and receipts, a budget to be complete should include comparative balance sheets, with actual and estimated figures, and comparative operation and surplus accounts with actual and estimated figures. Such balance sheets, operation and surplus accounts may be found in City Controller Walton's budget statements for 1915 and 1916.

Budget accounting is a source of information by means of which the citizen can fairly judge the results secured by officials and their programs for future accomplishments. I say "fairly judge" because I do not believe that the great majority of American citizens want to judge unfairly or in ignorance, if the basis for fair and intelligent judgment is presented in the budget. It serves a second purpose in that it is a bulwark of defense for the honest official. With it he can defend his past performances and explain the various increases asked for.

UNIT COSTS IN RECREATIONAL FACILITIES

By Paul T. Beisser,
Fellow, New York School of Philanthropy.

Of the $17.34 per capita paid in 1912 in cities of over 30,000 for all governmental costs, sixty-four cents per capita represent the expenditures for recreational facilities.[1] That is, of the total expenditures for governmental expenses 3.7 per cent went to recreational purposes, including museums, art galleries, bathing beaches, playgrounds, parks and all other recreational facilities. The total spent for recreation in 1910 was $16,108,808.00, or fifty-nine cents per capita; while in 1903 only thirty-four cents per capita were appropriated for this purpose. The per capita expenditure of the thirty-three "cities" of Massachusetts in 1908 was eighty-seven cents.[2] The 1914 Year Book of the Playground and Recreation Association of America shows 342 cities maintaining 2,402 playgrounds and recreation centers at a total expenditure of $5,700,223.81 for the year 1913. The Detroit Recreation Commission shows for the coming year a carefully drawn budget of forty items amounting to $169,299.00.

These facts indicate that recreational facilities are beginning to figure as items in the municipal budget. While the appropriations are as yet inadequate they are sufficiently large to be taken carefully into account, and they are rapidly increasing. A further indication of the growing importance of this item in the budget is the fact that the usual practice is to establish such facilities under private initiative, playground and recreation associations and the like, and when they have proven successful to have them taken over by the cities. This means that in the future the cities are likely to take over many of the burdens now resting on private shoulders. There is cropping up also a tendency to take many recreational facilities out of the "commercialized amusement" class and run

[1] *Financial Statistics of Cities Having a Population of Over 30,000.* United States Census Bulletin, 1912.

[2] *The Cost of Municipal Government in Massachusetts.* 1908, p. 17.

them in the interest of good morals, sound amusement and efficient citizenship rather than in the interest of profit. The municipal dance halls of Chicago and the municipal swimming centers of Philadelphia are good examples of this trend. This movement toward public coöperation in recreational facilities is natural and inevitable, for the social conscience is waking to the need for wholesome recreation for all. Furthermore only in this way can adequate facilities be provided within reach of all and at small individual cost.

The logical conclusion is that there is imperative need for careful analysis and standardization of the costs of these facilities. In order to plan improvements wisely, to estimate budget items, to compare the results which are secured in various cities, some bases of judgment and comparison are essential. In the matter of cost accounting most cities, as most recreation leagues and associations, are woefully lax. Cities run their playgrounds and recreation centers under the Department of Parks, or the city owns the parks or playgrounds and a private association equips them and directs their activities; or the Board of Education and the Bureau of Recreation handle the problem jointly. Some cities do not keep separate the attendance records of the various centers, some keep no records. At times the cost of operation is not separately kept for each center; again the costs of operation and of improvement are not separated. Frequently, when reasonably good figures are given, no careful description is given of the extent and character of the equipment and activities of the particular center. Even the terminology is varied and confusing. Thus this can as well be a plea for greater care and uniformity in reports and records as an analysis of available figures.

The reports of Chicago and Philadelphia contain much that is lacking in other reports and an analysis of them is more valuable than generalizations from less complete reports.

Parks

The following table was compiled from the report of Chicago's South Park Commissioners, February 28, 1914;

TABLE No. 1

Park	Improvements[1]	Cost of operation, 1913	Attendance, 1913	Area, acres	Cost per capita, 1913	Cost per $1,000 of improvements	Cost per acre, 1913
Jackson Park	$2,995,573.46	$169,640.75	871,878	542.89	$0.19	$56.29	$312.47
Washington Park.	1,418,474.93	144,915.28	590,465	371	.24	102.16	390.60
Marquette Park..	336,400.38	17,770.16	53,810	322.68	.33	52.82	55.07
Calumet Park....	20,001.24	9,729.02	76,343	66.19	.127	486.45	146.97
Sherman Park....	491,176.88	44,282.61	732,741	60.60	.061	90.15	730.73
Ogden Park.....	503,277.74	44,209.59	685,758	60.54	.064	87.84	730.25
Palmer Park.....	302,529.05	41,702.87	433,647	40.48	.096	137.85	1,030.20
Hamilton Park...	247,146.92	35,025.24	529,149	29.95	.066	141.72	1,202.84
Bessemer Park ...	329,615.97	35,677.33	510,635	28.88	.069	108.24	1,235.36
Russell Square....	167,800.67	29,078.84	433,004	11.47	.069	173.29	2,535.12
Mark White Square.....	257,374.23	35,564.97	606,725	10	.058	138.18	3,556.49
Fuller Park.....	510,554.07	39,722.01	781,887	10	.05	77.80	3,972.20
Davis Square	214,486.25	36,033.61	610,380	10	.059	168.00	3,603.36
Armour Square...	181,496.70	31,374.80	434,720	10	.072	172.87	3,137.48
Cornell Square...	174,459.53	30,337.07	527,857	10	.057	173.90	3,033.70

[1] "Improvement" includes all equipment and improvements.

These parks naturally divide themselves into two groups, Jackson, Washington, Marquette and Calumet Parks, which are especially large, and the remaining eleven all of which have practically the same equipment and improvements. These consist of gymnasiums for men and women both indoor and outdoor, a field house, playgrounds for children, shower baths, swimming pools, tennis courts, ball fields and skating ponds. Jackson Park, the largest of all, contains some of the old World's Fair buildings, a yacht harbor, boating and fishing lagoons, facilities for baseball, tennis and ice skating, and two golf courses. Washington Park contains facilities for sports, a conservatory and rose garden and the administration building of the park commissioners. Marquette Park, in addition to facilities for sports, has a field house with a dance hall and the nurseries of the park commissioners. Calumet Park, though large, has few improvements except a public bathing beach along Lake Michigan with ample dressing facilities for bathers.

The most useful comparison, then, is between the last eleven parks, since these are very similar in equipment. The total improvements vary considerably. A study of the other columns reveals the fact that the cost of operation per acre varies inversely

with the acreage; also that the cost of operation per $1,000 of improvement varies inversely with the improvements and the acreage. In other words, the greater the acreage the less is the cost of operation per acre, while as the acreage and the improvements increase the less is the cost of operation per $1,000 of improvement.

In the case of these parks, attendance does not provide as useful a comparison as might be wished, since it is only the record of those participating in specific activities, and does not include those who may have been benefited by the park as a place for rest or an airing. However, it is interesting to notice that the cost of operation per unit of attendance varies comparatively little. The average cost of operation per unit of attendance upon activities for these eleven parks was .065 cents. It is *estimated* that the facilities of Jackson Park and Washington Park were enjoyed by 11,334,716 and 11,650,000 visitors, respectively, during 1913. This would give a cost per unit of attendance of $0.015 for Jackson Park and $0.012 for Washington Park.

It is worthy of note that the cost of administration for all these parks was 5.19 per cent of the total cost of operation.

Playgrounds

The following table was compiled from the figures given by the Chicago Special Park Commission for the playgrounds under their charge during 1914.[3]

The equipment of these grounds varies from a single playfield to a separate athletic field, sand house and shelter platform, baseball and foot ball field, and indoor gymnasium. There are from twenty-five to forty pieces of apparatus on each playground. The playgrounds are open all the year, have a skating pond for winter and at each there is at least one director and one attendant in charge throughout the year.

The figures show at what low cost playground facilities can be furnished. The average cost per unit of attendance for all the playgrounds was $0.0159. Here again the cost of operation per $1,000 of equipment and the cost per unit of attendance decreases with the increase of equipment.

[3] *Report of Special Park Commission*, Chicago, December 31, 1914.

TABLE NO. 2

Playground	Equipment[1]	Cost of operation, 1914	Attendance, 1914	Area, square feet	Cost per capita, 1914	Cost per $1,000 of equipment
Wrightwood	$16,000	$3,815.06	348,020	361 x 454	$0.0109	$23.84
Beutner	10,000	3,322.98	308,685	258 x 546	.0107	33.23
Holden	10,000	3,205.39	196,750	116 x 696	.016	32.05
McCormick	9,000	3,335.92	212,350	125 x 275	.015	37.06
Corkery	9,000	2,910.26	254,284	265 x 164	.011	32.33
Fiske	8,000	3,139.66	215,545	264 x 174	.014	39.24
Christopher	8,000	2,993.77	200,351	125 x 275	.014	37.42
Commercial Club	8,000	2,722.44	114,958	120 x 123 125 x 200	.023	34.03
Audubon	8,000	2,098.84	173,476	138 x 264	.012	26.23
Moseley	7,000	2,416.41	188,875	200 x 200	.012	34.52
Drake	7,000	2,239.05	110,162	181 x 194	.020	31.98
Sampson	7,000	3,203.42	217,991	125 x 215	.014	45.76
McLaren	7,000	2,186.82	98,750	185 x 175	.022	31.24
Adams	7,000	2,101.25	115,172	102 x 288	.018	30.01
Hamlin	6,000	3,060.52	201,235	300 x 598	.015	51.01
Dante	5,000	2,320.34	175,261	235 x 95	.013	46.40
Washington	5,000	2,176.41	169,420	128 x 174	.012	43.53
Northwestern	4,000	2,363.45	144,970	70 x 350	.016	59.08
Orleans	4,000	2,135.26	59,919	126 x 136	.035	53.38

[1] Approximate.

The per capita cost here is much smaller, naturally, than that for the parks, since in the first place there are many more expenses such as policing, care of lawns, landscape gardening, etc., in the case of parks, and secondly, the complete record of attendance at the parks is not secured. If we take the per capita cost based on the estimated attendance at Jackson and Washington Parks we find that the figures $0.015 and $0.012 respectively compare well with the average per capita cost of the playgrounds, $0.0159. However, the additional expenses which the park features entail are cause for the fact that the cost of operation per $1,000 of improvement for parks is much higher than that for playgrounds. In the case of the playgrounds, salaries and wages amounted to 86.53 per cent of the cost of operation.

The figures for playground costs in Philadelphia are given in the following table:[4]

[4] Compiled from report of Board of Recreation, January 1, 1914.

TABLE No. 3

Playground	Cost of operation, 1913	Attendance, 1913	Cost per capita, 1913	Months open
Athletic Park	$4,769.28	113,822	$0.041	2
Kingsessing Park	5,323.84	131,341	.04	9
Chestnut St. Pier	6,379.46	133,371	.047	12
Coxe	1,603.34	87,483	.018	10
Disston Park	4,539.12	202,826	.022	12
Tunfield	6,600.49	355,043	.018	12
Happy Hollow	7,237.72	162,054	.044	12
Point Breeze	600.90	21,999	.027	6
Race St. Pier	3,342.91	48,630	.068	4
Sherwood Park	13,120.49	291,146	.044	12
Shot Tower	1,116.09	82,332	.013	8
Starr Garden	13,420.10	360,269	.037	12
Viaduct	3,102.37	164,889	.018	12
Waterview	3,303.43	57,687	.05	7
Weccacoe	2,731.15	66,314	.041	8
Westmoreland	1,454.10	73,816	.019	7
Womrath	459.09	13,975	.032	4
East Germantown	538.14	42,151	.012	5
Friends' Meeting House	473.77	17,453	.027	2
Parkway	225.50	10,859	.02	2
Belfield	547.64	36,579	.015	4
Pomona	624.79	6,382	.097	4

The average cost of operation per capita for these playgrounds was $.0341 as compared with Chicago's figure of $.0159. A comparison between these averages is hardly fair, for in the first place Chicago's playgrounds were open all the year while most of Philadelphia's were not. Taking those that were, Chestnut Street Pier, Disston, Tunfield, Happy Hollow, Sherwood, Starr Garden and Viaduct, we find an average cost per capita of $.033. Five playgrounds open only four months show an average cost of $.044, while the five grounds open from six to eight months show an average cost of $.03. Thus, irrespective of the length of the playground term, Philadelphia is spending more per unit of attendance than Chicago. It also seems evident that keeping the playgrounds open during the winter months does not increase the per capita cost of operation, indicating that they are used to an extent which makes it worth while to run them all year.

The difference between Chicago and Philadelphia might be explained by the fact that a comparatively lower attendance raises the per capita cost. However, we find that while Philadelphia has a somewhat lower average attendance, 114,110 for 1913, compared with Chicago's average of 172,956, its average cost of operation per playground, $3,705.31 is much higher than Chicago's figure, $2,-618.28. Evidently, then, the difference is caused by a comparatively higher cost of operation.

The proportion of salaries and wages to the total cost of operation is 77.81 per cent as compared with 86.53 per cent for Chicago.

Bathing Beaches and Swimming Pools

For bathing beaches and swimming pools Chicago again has the best available figures as shown in the table below.

TABLE No. 4

Pool or Beach	Cost of operation	Attendance, one year	Cost per capita
Rocky Ledge Beach[1]	$3,029.59	111,565	$0.027
Ohio Street Beach[1]	1,744.52	152,708	.011
Washington Heights Pool[1]	2,710.78	51,717	.052
Mark White	1,988.57	85,218	.023
Armour	921.74	55,399	.016
Fuller	2,253.95	66,066	.034
Cornell	1,134.21	48,738	.023
Russell	1,269.66	36,611	.034
Sherman	1,125.12	92,525	.012
Ogden	1,765.27	105,838	.016
Bessemer	1,658.64	70,942	.023
Palmer	1,491.23	79,889	.018
Davis	1,428.78	60,334	.023
Calumet Beach	1,983.59	59,993	.033
Jackson Beach	7,496.67	176,751	.042
McKinley	3,232.29	82,211	.039

[1] From *Special Park Commissioners' Report*, December 31, 1914. All others are for 1913 from *Report of South Park Commissioners*, February 28, 1914.

The four bathing beaches, Rocky Ledge, Ohio Street, Calumet and Jackson show an average cost per unit of attendance of $.028. There is little difference in the case of the twelve swimming pools, which had an average cost of $.026. These pools and beaches were

open for the months June to September, inclusive. The slight cost of operating a beach like Ohio Street beach, or a pool like Sherman Park pool, a little over one cent per unit of attendance, is the most effective argument for municipal recreational facilities.

In Philadelphia, fourteen municipal swimming centers during ten weeks gave 26,533 swimming lessons at a total expenditure of $2,739.33, or a cost of 10.3 cents per lesson.

Miscellaneous

Philadelphia conducted supervised play during July and August 1913, under the Board of Recreation, in 106 school yards. The average cost per yard was $385.51 or a cost of $.041 for every time a child used the school yard. Their home and school gardens had an attendance of 173,307 during six months with an expenditure of $11,138.86, making a cost of $.064 per unit of attendance.

The playground in Reading, Pa., had in 1914 an attendance of 204,107 at a cost per capita of $.023. This compares favorably with the average cost for Chicago's playgrounds of $.0159.

The municipal dance halls of Chicago are able to sell two admissions for twenty-five cents, with free checking service included. Jackson Park, Chicago, has one nine-hole and one eighteen-hole golf course. During 1913 more than 300,000 persons played over these courses at an average cost of a little over five cents each.

What one small city can do is told by a correspondent of the *Playground Magazine*.[5] Amherst, Nova Scotia, with a population of 10,000, had a recreation campaign during the summer of 1913. The high school grounds and one other plot were used as centers. Three experienced workers were employed at a cost of $310.00 and $169.00 were spent on work and equipment. It is estimated that the children's games, athletics, ball games and other sports were participated in by 1,700 different persons at an average cost of $.27 per person for the summer. The total attendance at all activities was more than 17,000 or about $.027 per unit of attendance.

This analysis shows the comparatively low cost of recreational facilities furnished by public coöperation. It is not pertinent or necessary here to discuss their importance. Recreation is an item in the city budget and is rapidly growing larger. The need now is for careful cost and attendance records and greater care and uniformity in reports.

[5] *Playground Magazine*, February, 1914, p. 445.

SOME SUGGESTIONS FOR PREPARING A BUDGET EXHIBIT[1]

By J. Harold Braddock,
Vice-President, American City Bureau, New York.

Primarily the function of the budget exhibit is to bring public opinion to support public officials who have visions as to what might be accomplished toward social well-being and to counteract the indifference of the passive many and the selfish interests of an active few who hamper the work of civic progress. The budget exhibit accelerates the forward movement by pointing out graphically the need for municipal improvements and helps communities approach these higher standards by guiding them in the actual work of carrying out the recommendations indicated. Thus the budget exhibit is a potent factor in the social education of the public, the connecting force between the educational agency and those intent upon active civic advance.

An efficient budget exhibit, accordingly, is educational in its nature and shows to the taxpayer such facts as:

A. The work accomplished by the department or bureau asking for money

How much spent last year

How much wanted for the next year

What is to be done, and the reasons for the increase or decrease

B. The cost of such work per unit, with the comparison of the cost of such work in other comparable cities

C. Relative efficiency of the work done as compared with that of other comparable cities

D. Work that might be done effectively and estimate of the cost of such work with a comparison of conditions in other comparable cities

E. Opportunities for saving in the conduct of the city's business by the introduction of scientific management

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[1] It is the purpose in this paper to deal with no phase of the budget exhibit other than the details for charts. For treatment of other phases, see "The Efficiency Value of the Budget Exhibit," *The Annals of the American Academy of Political and Social Science*, May, 1912, page 151; "How New York Views Its Budget Exhibit," the *Twentieth Century Magazine*, November, 1911, page 21; "The Significance of the Dobbs Ferry Idea," *The American City*, August, 1912, page 106.

To avoid confusion, the functional method of display is adopted, with coördinate displays by departments as arranged in the budget, unless the budget is functionalized.

1. General charts for the city as a whole give the area, population and death rates, marriage rates, tax rate, miles of highway, etc., with a comparison of these with another comparable city.

2. The system of government is illustrated by charts showing the general plan of the system and of regular departments and offices.

3. The "cube" scheme for showing budget totals usually is adopted, classifying both by departments and by functions, together with cubes showing the city debt as compared with other comparable cities.

4. The city budget as a whole is shown on two charts. The first is departmentalized as follows:

General administration
Fire protection
Police protection
Health
Sewerage
Garbage
Sidewalks, cross-walks and parks
Street lighting
Street sprinkling
Assessments and collection of taxes
Public library
City court
Etc.

The second shows the following classifications:

Salaries and wages
Repairs and replacements
Fuel
Forage
Shoeing horses
Telephone
Light, heat and power
Water
Advertising and printing
General supplies
Contingencies
Etc.

5. General administration—Chart showing present expendi-

tures and estimates for next year with increase or decrease, and reasons.

6. Fire protection—The exhibit to show the following charts:

a. Expenses last year and estimate for next year, with increase or decrease as to

Salaries of permanent men
Salaries of call-men
Supplies
Alarm system
Telephone
Uniforms
Apparatus
Etc.

b. Fires per month for ten years
Number of fires per month per 1,000 population
Number of fires per month per 1,000 population in comparable cities

c. Number of men employed
Permanent
Call
Number of men employed in proportion to population; compare with other cities

d. Property loss through fires for ten years; compare with other cities

e. Equipment of department

No.	value
Engine houses	
Hose	
Engines	
Etc.	
Total Value	

Equipment of department in other cities

No.	value
Engine houses	
Hose	
Engines	
Etc.	
Total value	

f. Increase of property valuation last ten years
Increase of appropriation for fire protection last ten years, with relation to property valuations

7. Police protection exhibit on same lines as above, emphasizing possibility of saving, and showing needs.

8. Health exhibit on lines as above.

9. Sewage exhibit showing:

a. Complete chart of expenses and estimate for next year with increase or decrease
b. Chart of present system and extensions desired, with cost
c. Work accomplished
d. Cost of sewers and operation
e. Cost of different kinds of sewers, pipes, drains, etc.

f. Cost of cleaning sewage basins per basin with number cleaned last year, force employed, and number of cubic yards removed per basin with comparison of cost in other cities

g. Same for sewers

h. Method of disposal of sewage

i. Show better method of disposal, etc., and cost of installation of better system of improvements

j. Budget appropriation for maintenance of sewers, with number of miles of sewers and appropriation per mile

k. Number of employees

10. Garbage.

a. Complete chart of garbage expenses last year, with estimate of cost for next year, and increase or decrease

b. Portions of city covered, with cost per cubic yard of material removed and per capita of population and comparison with comparable city

c. Cost of extending to other sections of city

d. Methods used and better methods possible, with cost

e. Number of employees

f. Equipment and value of same

11. Sidewalks, cross-walks and parks.

a. Complete chart of expenditures and estimate for next year, with increase or decrease

b. Map of square yards of new walks laid, with kind of walk and needs for next year

c. Repairs made, and the cost per square yard of repairing various kinds of walks

d. Cost of cleaning snow per cubic yard for walks, with snow falls in square yards, and cubic yards cleaned and per capita cost. Cost in comparable city

e. Number of parks, acreage, and location by map

f. Cost of up-keep of parks per acre

g. Number of employees

12. Street lighting—similar exhibit.

13. Street sprinkling—similar exhibit.

14. City court.

a. Chart of expenditure and estimate for next year, with increase or decrease

b. Number of persons held and final disposition during year

c. Cases of various sorts for ten years, comparative statement

d. Charts classifying persons held by nativity, age, color, marital condition, etc.

e. Needs and cost comparisons with other cities

15. Finance.

a. Charts showing cost of administering finances of city and estimate for next year, with increase or decrease

b. Total city debt showing increase for ten years. Total and proportional debts of other comparable cities

c. Comparative budget totals for ten years, with estimated total for next year

d. Increase in budget compared with increase in population, showing per capita expenditures

e. Sinking fund

f. Bonds issued last year

g. Proposed for bond issues next year

16. Assessment and collection of taxes.

a. Charts showing cost of assessing and collecting taxes, and estimate for next year with increase or decrease

b. Work done in last year

c. Income from various taxes and estimate for next year, and per capita rate

In some instances it is desirable to have a more complete exhibit for a particular department. For example, the exhibit for the department of street cleaning shows for a number of years and for comparable periods, the following standard facts.

A. Average cleaning cost per thousand square yards cleaned by all methods, all pavements

B. Average carting cost per cubic yard of all refuse removed

C. Average disposal cost per cubic yard of garbage disposed of

D. Average disposal cost per cubic yard of ashes, sweepings, and rubbish disposed of

E. Average stable cost per horse day working

But it is desired to go further in the exhibit of this department. Accordingly, such facts as the following are shown:

1. Map of city with appended statistics as to

a. Population

b. Density of population

i. Maximum

ii. Minimum

iii. Average

c. Area of city

d. Length of streets

i. Paved

ii. Macadamized

iii. Unpaved

e. Area of pavements
  i. Rough (Block, cobble, granite)
  ii. Smooth (Asphalt, wood block, brick)
  iii. Macadam (Tarred, oiled, plain)
  iv. Unpaved

2. Organization chart of department.

3. Digest of statutes, charter provisions, city ordinances, health regulations, police regulations and department rules relative to street encumbrances, street cleaning, carting, disposal of refuse, etc.

4. Arrests for violations, with number fined, amount of fines, number of fines, number imprisoned, number discharged.

5. Expenditures for the following:

a. Salaries
b. Wages
c. Apparatus, machinery, vehicles, harness, etc.
d. Furniture and fittings
e. Repairs and replacements
f. Telephone service
g. Automobiles, purchase and maintenance
h. Horses—purchase
i. Horses—maintenance
j. General supplies
k. Contracts
Etc.

6. Salaries and wages—Number at each price, number of days, and total paid for each class of labor.

7. Revenues from sale of garbage, trimming dumps, etc.

8. Equipment of each sweeper.

9. Square yards cleaned each day per sweeper, per sweeping machine, per flusher, per flushing machine, per squeegee.

10. Samples of receptacles on streets.

11. Monthly work of department by loads and by cubic yards in carting street sweepings, ashes, garbage, rubbish, snow and ice.

Etc.

These statistics are not required for every city, nor are they available in most cities. They serve to indicate, however, the variety of matter possible to place in the exhibit of a department which is studied intensively.

The budget exhibit, then, shows by means of photographs and

charts how much the city spends each year and what it gets for its money. Expenditures, accounts and annual reports are compared with expenditures for similar purposes in other towns. On the physical side, the best that the city has is compared with the worst that it has, with a view to pointing out what the city needs as to parks, repairing of streets, cleaning of streets, sidewalks, trees, artistic electric light poles, underground electric wires and city planning. Public amusements are compared with provisions made by other towns for playgrounds, entertainment halls, game rooms and public baths. In the matter of health, is set forth what the city does and what other towns do to control the quality of milk, water, ice, foods, plumbing, nuisances, tenements and contagious diseases. Similar figures show school attendance, absences, non-promotion, and elimination, medical and physical inspection and treatment of school children, ventilation, decoration, equipment, ungraded classes for retarded pupils, manual training, domestic science, vocational guidance and wider use of the school plant. In each instance the best things in the city are set forth, thus lauding the city for its accomplishments. Where both good and bad conditions exist, the best are set forth, and alongside are shown the worst, with the question as to whether the best is any too good for all of the city.

In every instance it has proved essential to procure the coöperation of city officials in charge of each of the city departments for which an exhibit is planned. Usually city officials are glad to show the public what they are doing with their appropriations and what they would like to do if they had larger appropriations. The same thing can be done with the private organizations engaged in philanthropy and civic welfare work. In fact, it is profitable to arrange for heads of departments to coöperate with the executives of private agencies in getting up exhibits covering their mutual fields. For instance, the anti-tuberculosis league and the organization in charge of milk stations coöperate with the health officer; the associated charities coöperate with the superintendent of the poor, etc. If each department head will endeavor to show how much money was appropriated at the beginning of his term or at the beginning of the year, how much was expended and what services were rendered for the money spent, a pretty clear picture will be given of the results of that department's activity. Have this tied up to what

the executive would like to have accomplished, and there is the basis for increased public interest.

Throughout the exhibit there are shown photographs. For illustration, at one budget exhibit there were shown such pictures as the following:

1. The best looking house and home site in the village, cost or rent of which was not over a certain specified amount
2. Vistas looking over the surrounding country
3. The first village playground
4. Schoolhouse, closed and not used; with complementary picture showing children playing in the street
5. Aqueduct not used and available for playground
6. Abrupt ending of main street, with complementary picture of monument or fountain in similar location
7. Ugliness of poles and wires on streets, with complementary picture indicating remedy
8. New engine house, a model of its kind

But the strength of the exhibit in attracting the public at large lies in the number of active exhibits or working models. For this purpose the following devices have been useful:

1. Fire department exhibit—real alarms turned in at fire alarm box, and firemen in full regalia spring to their places on fire apparatus
2. Street lighting department—lights flashed to show tests made on arcs
3. Street cleaning department—model of two-storied fire department headquarters building, beside which stands a pile of street sweepings three times as large, indicating comparison of amount of street sweepings removed each year
4. Health department—laboratory showing saving of babies from impure milk
5. Building department—charts, pictures and models showing how to build and how not to build houses or tenements
6. Purchasing department—piles of all kinds of groceries, coal, engineering supplies, etc., purchased by city in one year, with prices on them and gilded cubes indicating amount of each purchase annually. Each cube connected by colored ribbon to central chart containing salient figures and information about the department
7. High-pressure water system—miniature sky-scraper aflame, with a stream from a hydrant, one from an engine, and one from a high-pressure hydrant, contrasted with the 320 feet to which a stream can be raised by a modern high-pressure system
8. Education department—1,000 feet of film show fire drills, etc.
9. Schools—examples of articles made by pupils in vocational training departments, both boys and girls

10. Purchasing department—pictures showing trees growing through machinery and tools cast away in store yards and disorder in store rooms, contrasted with sample shelving and bins for keeping supplies in order, together with perpetual inventory records
11. Health department—dental clinic, examining teeth of school children
12. City laboratory—testing apparatus for determining heat units in coal
13. Model of farm yard well, showing facility with which water is contaminated from barn-yard filth
14. Large bottle with electric light flashing, labeled and designed to show danger of patent medicine
15. Model showing six small dolls in cradles passing across table top into a door marked "Entrance to Second Year," with a seventh small doll covered by a grave and stone before it enters this gateway; indicating graphically the infant death rate.

Limitless ideas suggest themselves to those actively engaged in the preparation of a budget exhibit. For those whose facilities for putting their ideas into practice are limited, there is always available the coöperation of the Educational Exhibition Company, of Providence. A number of the models and devices suggested in the preceding paragraph were designed and made by this company of young men.

Each successive budget exhibit witnesses a broadening of the scope. Early exhibits gave attention to few subjects other than those included strictly within municipal activities. Later social welfare became an important theme in budget exhibits. Then came commerical facts relative to the city, with charts giving such information as the following:

1. Assessed valuation for past ten years
2. Building permits
3. Post office receipts
4. School enrollment, public and private
5. Public library, volumes and circulation
6. Industrial activity, number of factories and number of employees
7. Building and loan associations, total membership, borrowing members, assets
8. Bank capital and surplus
9. Savings deposits
10. Bank loans and discounts
11. Total bank deposits
12. Bank clearings
13. Value of products
14. Capitalization of industries

15. Cost of materials used
16. Value added by manufacture
17. Salaries and wages
18. Miscellaneous expenses
19. Imports and exports
20. Port arrivals and clearances—coastwise, foreign, tonnage

Meanwhile there has been growing up a group of men throughout the United States who have a vision of the intimate relationship between sewers, streets, tunnels, and the administrative and commercial activities of cities. Sewer systems built without provision for community growth required money which should be available for other city needs. In contrast, the telephone companies in most cities have their trunk lines planned and built upon the certainty of future growth. On the one hand, an exorbitant over-tax is laid upon every person living or doing business in the city, with resultant loss in efficiency and waste of funds. On the other hand, a process of conservation brings a potential benefit to every citizen. Consequently, the relationship between city planning and community development and actual administrative efficiency has taken concrete form in a visualization of the principles involved—in the American and Foreign City Planning Exhibition, as it is called, of the American City Bureau.

This city planning exhibition, which has been shown in connection with municipal exhibits, budget exhibits and government expositions in the United States, Canada, and Chili, marks the most recent step in the evolution of the budget exhibit. Beginning with such prosy municipal subjects as sewers, pavements, streets and switching yards, it leads upward to the highest interests of humanity. It is designed graphically to analyze the city into elemental parts, to show their structural relationship and the scientific method of city planning. It is part of the great movement typified by the budget exhibit, a movement which is sweeping across the land and transforming our municipal life. That transformation is to be from waste to economy, from confusion and congestion to order. It means that the great distributive function of our economic life is to be articulated with the other great function, production, in agreement with the dominant principle of the day—efficiency.

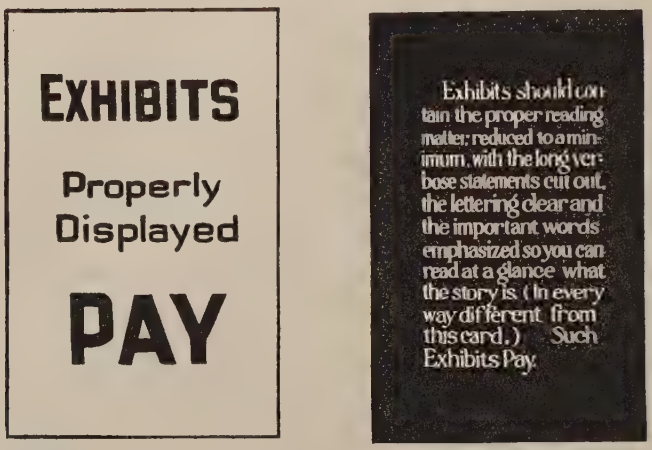
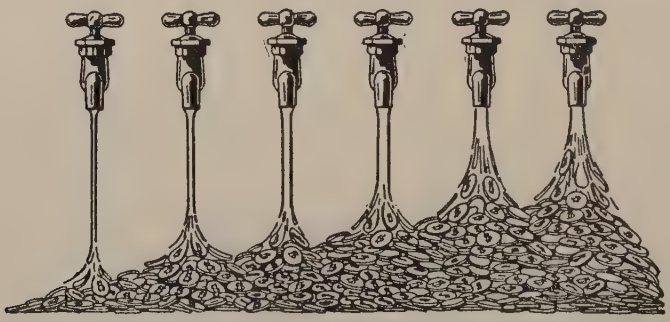

EXHIBITS
Properly
Displayed
PAY
Exhibits should contain the proper reading matter; reduced to a minimum, with the long verbose statements cut out, the lettering clear and the important words emphasized so you can read at a glance what the story is. (In every way different from this card.) Such Exhibits Pay.

Illustration of difference between two styles of display charts.
Hold this page at arm's length to see which
is more readable.

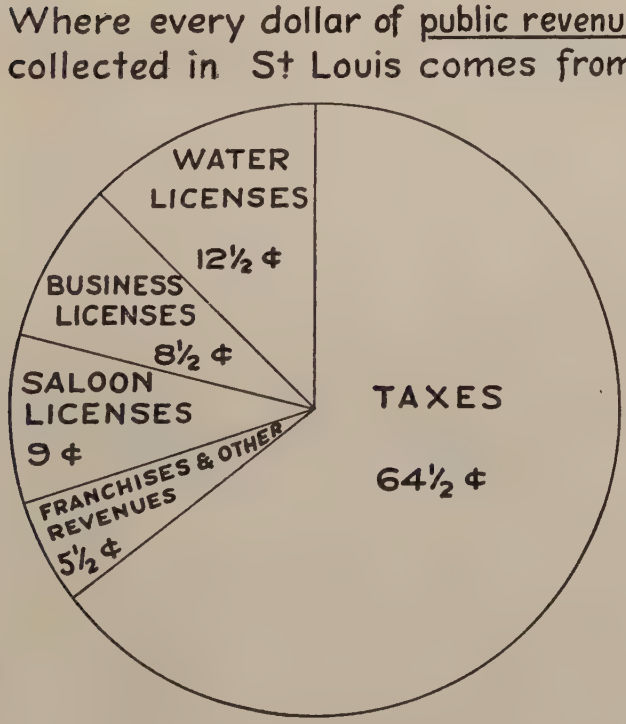
A GRAPHIC METHOD OF SHOWING THE MONEY COST OF LEAKY FAUCETS.



Under Average Water Rates and Pressures This is the Way That Leaks Run into Money.

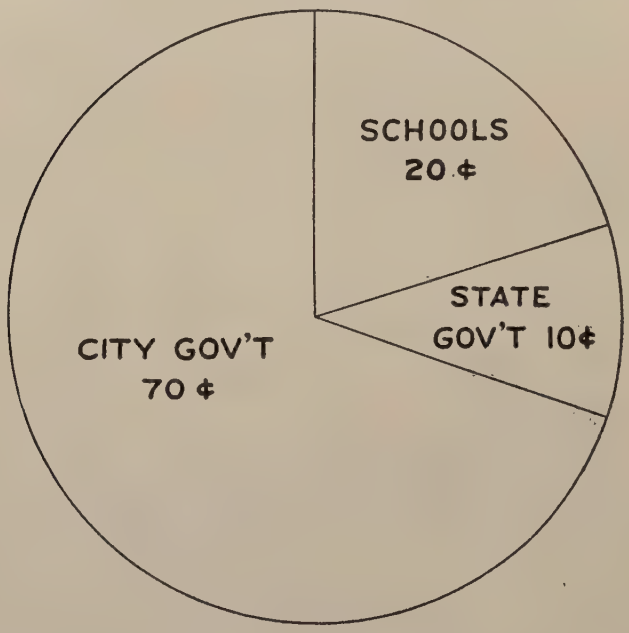
Each 1-64 inch leak wastes 2 gallons per hour and costs . . .	1c per day
Each 1-32 inch leak wastes 8 gallons per hour and costs . . .	5c per day
Each 1-16 inch leak wastes 34 gallons per hour and costs . . .	21c per day
Each 1-8 inch leak wastes 137 gallons per hour and costs . . .	86c per day
Each 1-4 inch leak wastes 514 gallons per hour and costs . .	$3.21 per day
Each 1-2 inch leak wastes 2057 gallons per hour and costs . .	$12.84 per day

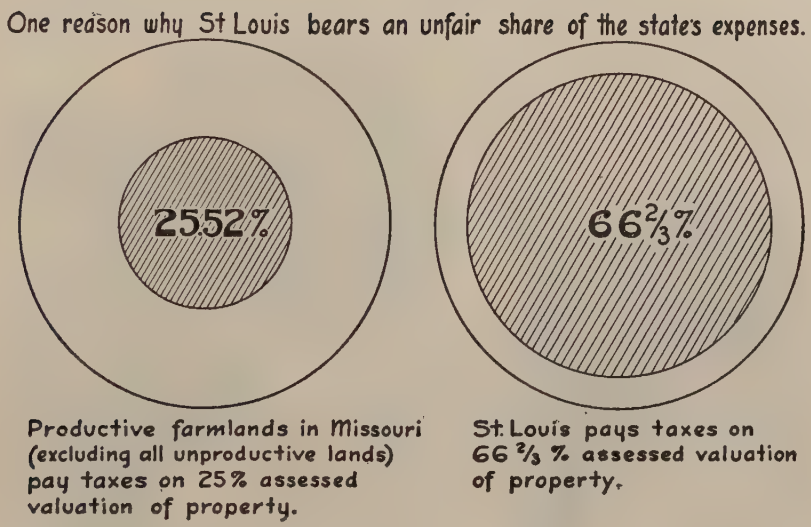
Next, here are all the sources of revenue—from general taxes and special license taxes.



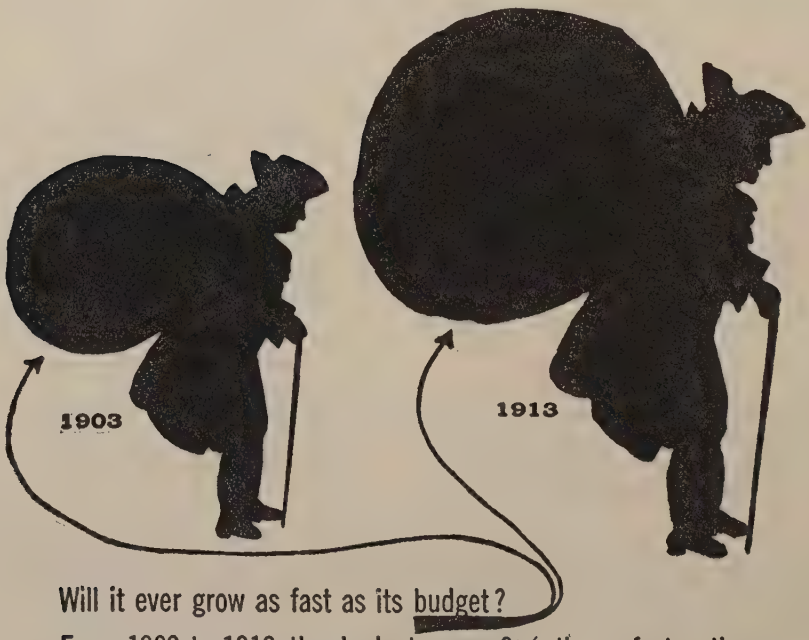
That completes the story of the increased tax rate. There are some significant points in our fiscal system which, however, need attention in connection with an increasing tax rate.

First, let's see how the money is distributed.




One reason why St Louis bears an unfair share of the state's expenses.
25.52%
66⅔%
Productive farmlands in Missouri (excluding all unproductive lands) pay taxes on 25% assessed valuation of property.
St. Louis pays taxes on 66 ⅔ % assessed valuation of property.

If all property in Missouri were assessed at 66 2-3 per cent of its true value, the state would have plenty of money and St. Louis would not bear an unjust share of the state's burden.


Our City Will Grow
No Matter Who's Elected
1903
1913
Will it ever grow as fast as its budget?
From 1903 to 1913 the budget grew 2½ times faster than the city's population.

A graphic cartoon.

BUDGETARY PROCEDURE UNDER THE MANAGER FORM OF CITY GOVERNMENT

By Arch M. Mandel,

Dayton Bureau of Municipal Research.

Forty-five cities have at the present writing adopted the commission manager form of government, which is modeled upon the organization of private corporations, and which plan, more than any other, it is believed by its adherents, lends itself most readily to the development of an efficient administration of city business. It is logical and rational because it recognizes the fact that managing a municipality is a specialized profession and cannot be left to merchants, manufacturers or mechanics.

What have these cities under the manager plan of government accomplished in the way of efficiency and economy? Scanning a list of achievements enumerated by Richard S. Childs in the July number of the *National Municipal Review*, it is found that Dayton, in 1914, by an increase of $77,709 in its operating expense over the year 1913, gave $140,000 worth of new service under the new régime; Springfield reduced its operating expense by $50,000, wiped out a floating debt of $100,000 and was getting more service than before; La Grande reduced $110,000 of outstanding warrants by $35,000 during the first year; Manistee saved $20,000 on a budget of $104,000 and at the same time increased the service; Cadillac reduced its annual operating expense by $6,000, at the same time improving the service.

Such results give evidence not only of adherence to the fundamental principle in city business—keeping expenditures within the income—but also of having planned expenditures so as to produce a maximum of returns. In private business the expenditures determine the income. Under normal conditions, every dollar spent means a dollar plus of returns. On the other hand, the income of a city is limited to a definite amount, while the needs as a rule seem infinite. It is, therefore, essential under these conditions to prepare a budget by which one benefit can be weighed against another and

the money apportioned according to benefits to be derived. This seems to have been done by the commission-manager cities, but whether in a scientific manner or not is another question. At least it was done in an effective manner.

Data were received from the following cities:

Manistee, Mich.	12,381	$90,453.00
Titusville, Pa.	8,533	58,819.79
La Grande, Ore.	4,843	103,800.00
Abilene, Kans.	4,118	36,169.00
Hickory, N. C.	3,716	65,320.00
Montrose, Colo.	3,252	23,615.00
Morris, Minn.	1,685	37,000.00
River Forest, Ill.	2,456	20,640.23
Dayton, Ohio	123,800	1,303,467.11[1]

[1] For current operating expenses only.

Taking the budgetary provision of the charters as a basis, the cities enumerated above may be divided into two groups—Dayton comprising one and the remaining cities the other. In the cities of the second group the charters provide merely that at a certain time each year the commission shall cause to be prepared or that the manager shall prepare a list of receipts from all sources and detailed estimates setting forth the necessary expenditures for all purposes for the ensuing year. Neither the nature of the information desired, nor the extent of the detail required, are specified.

However, from information gathered, it is found that the city managers base their requests upon detailed information of expenditures during past and current periods. Furthermore, because of the small size of the cities and the correspondingly small amounts involved, the managers and even the appropriating bodies have intimate and detailed knowledge of work done and work proposed, of the need and the cost. An example of this is furnished by Morris, Minnesota, where "unit costs of all work and a statement of expenditures are made bi-monthly. The progress and plan for all work is discussed at the weekly commission meeting."

Appropriations are made for each department, without being functionalized and not according to a uniform classification. Although the budgets are unscientific in form, they seem to work out satisfactorily in practice. In formulating the budget, the executive

in every instance obtains all the information necessary for the presentation of sound estimates and intelligent recommendations.

It is evident from the results achieved that not only was an adequate relationship between receipts and expenditures established and maintained, but that expenditures were made according to a well considered program. While such informal methods apparently proved satisfactory from an administration standpoint and did not hinder willing officials from operating efficiently, it must be remembered that city officials are not alone interested in the budget. The public also is vitally interested in how its money is being spent and it is therefore incumbent upon those preparing the budget to present to the public in a concise and clear manner such statements as will assist the layman in comprehending intelligently how and why funds are being apportioned in the specific manner in which they are. Comparative summaries of receipts and expenditures of past and current periods should be prepared, the financial status should be explained through a debt statement and balance sheet, and appropriations should be made in such manner as to make clearly evident the definite purposes for which the funds will be spent. This information is essential for efficient financial control in small as well as large cities.

Dayton, Springfield, and Sandusky operate under similar budgetary provisions in their charters, but because of the size of the city and the fact that all department heads are appointed, by the manager, the success or failure of Dayton's government has a special significance and its budget is of a correspondingly peculiar interest. In the smaller municipalities, where the managers know every minute of the day the status of all activities, noteworthy economy seems to have been effected even with unscientific budgets. In Dayton, however, with a budget of $1,303,000 for current operation only, the manager cannot without a formal system of budgetary procedure determine intelligently the amounts necessary for the various functions, nor can he without a functionalized work-program judge the efficiency of his department heads. Furthermore, a painstaking and concise exposition of the finances of the city must be made for the information of the public.

Prior to January 1, 1914, under the federal plan of government, Dayton operated under an inadequate and unscientific budget and the result was government by deficit. Twice a year, the finance

committee of the council prepared a six months' budget based upon requests from department heads. These requests were not sufficiently detailed, nor did they contain adequate supporting data of past expenditures to substantiate the new demands. The finance committee based its recommendations upon the last appropriations without knowing how efficiently the money was spent, and council then made its appropriations in more or less aggregate sums. These appropriations were not necessarily kept within the estimated income and as a result for six successive years a deficit of $60,000 per year was created. Public hearings upon the budget were not held.

Since January 1, 1914, Dayton has been operating under a commission manager charter of which the provisions governing the appropriations are as follows:

> The fiscal year of the city shall begin on the first day of January. On or before the first day of November of each year the city manager shall submit to the city commission an estimate of the expenditure and revenues of the city departments for the ensuing year. This estimate shall be compiled from detailed information obtained from the several departments on uniform blanks to be furnished by the manager. The classification of the estimate of expenditures shall be as nearly uniform as possible for the main functional divisions of all departments, and shall give in parallel columns the following information:
>
> *a.* A detailed estimate of the expense of conducting each department as submitted by that department.
>
> *b.* Expenditures for corresponding items for the current fiscal year, including adjustments due to transfers between appropriations plus an estimate of expenditure necessary to complete the current fiscal year.
>
> *c.* Expenditures for corresponding items for the last two fiscal years.
>
> *d.* Amount of supplies and materials on hand at the date of the preparation of the estimate.
>
> *e.* Increase or decrease of requests compared with the corresponding appropriations for the current year.
>
> *f.* Such other information as is required by the commission or that the city manager may deem to be advisable to submit.
>
> *g.* The recommendation of the city manager as to amounts to be appropriated with reasons therefor in such detail as the commission may direct.

It is realized that the wording of the above section which provides that the "classification shall be as nearly uniform as possible for the main functional divisions of the departments" is no longer applicable, and should read "shall be uniform for the main functional divisions. . . . " In practice the latter interpretation is carried out.

The Dayton budget for 1915 does not include a program for

permanent improvements to be paid out of bonds, but except for this phase it is complete and according to scientific standards of budget procedure. Based upon a detailed estimate of revenue from all sources except bond sales, appropriations are made in accordance with a uniform classification of expenditures for each functional division.

The following sections go to make up the 1915 budget:

Classification of expenditures;
Estimated income by source;
Summary of expenditures by objects purchased;
Summary of expenditures by organization units and according to objects purchased;
Appropriation ordinance including detailed appropriations to each function, in accordance with a uniform classification.

All the receipts of the city coming from taxes and miscellaneous sources go into one fund called the general fund. From this fund all appropriations are made to each departmental division, by character of expenditure, which is divided into two main groups,—current operation and capital outlay. Under each of these groups appropriations and allotments are made in accordance with the following classification:

A. Personal Service

Personal service is direct labor of persons in the regular or temporary employment of the corporation.

1. Salaries.
2. Wages.

B. Contractual Services

Contractual services are activities performed by other than municipal departments, under expressed or implied agreement, involving personal service plus the use of equipment or the furnishing of commodities.

1. Communication.
2. Contractual Repairs.
3. Hire of Equipment.
4. Insurance.
5. Public Utility Services, N. O. S.
6. Special Service.
7. Traveling.
8. Other Contractual Services.

C. Sundry Charges

Sundry charges include those outlays legally or morally obligatory upon the city as a public corporation and trustee.

1. Contributions.
2. Debt Service.

3. Depreciation.
4. Imprest Cash.
5. Pensions.
6. Refunds and Claims.
7. Taxes.

D. Supplies

Supplies are commodities of a nature which after use show a material change in, or an appreciable impairment of, their physical condition; and instruments liable to loss, theft, and rapid depreciation.

1. Chemicals, Drugs, and Medicines.
2. Clothing, Dry Goods, and Notions.
3. Food Products.
4. Forage.
5. Fuel.
6. Minor Instruments.
7. Oils and Lubricants.
8. Stationery.
9. Other Supplies.

E. Materials

Materials are commodities of a permanent nature,—in a raw, finished or unfinished state,—entering into the construction, renewal, replacement or repair of any land, building, structure or equipment.

1. Lumber.
2. Machine and Metal Materials.
3. Masonry.
4. Paints, Oils, and Glass.
5. Other Materials.

F. Equipment

Equipment comprises the live stock, furniture, machinery, implements, vehicles, and apparatus necessary and useful in the operation of the corporation, and which may be used repeatedly without appreciable impairment of their physical condition, having a calculable period of service.

1. Furniture and Furnishings.
2. Live Stock.
3. Machinery and Implements.
4. Motor Vehicles.
5. Vehicles and Harness.
6. Miscellaneous.

G. Lands, Buildings, and Structures,—By Purchase

Supplies are classified according to the nature of the goods and not according to the use to which they might be put; for instance, gasoline is listed under oils and not under fuel.

The appropriation ordinance, which has been found satisfactory for the past two years, is as follows:

AN ORDINANCE

To make the general appropriations for the year 1915.

WHEREAS, It is necessary in order to provide for the immediate preservation of the public peace, property, health and safety, and to provide for the usual daily operations of the municipal departments that the general appropriations for the year 1915 be made at once:

Be it ordained by the Commission of the City of Dayton:

SECTION 1. That there shall be and hereby is appropriated out of any moneys in the treasury, or any accruing revenues of the city available for said purposes, the sums of money set forth in the column marked "Appropriations" for the various purposes hereinafter specified for the payment of all expenses and obligations of the city during the year 1915. The positions designated herein are hereby created and the rate of wages or price per unit of any of the items hereinafter set forth shall not be greater than that indicated. Any additions to salary or wage, or the creating of new positions shall be by ordinance. Each department shall limit its expenditures for the various purposes set forth in the ordinance to the amounts appearing in the columns marked "Expense" unless the City Manager shall expressly authorize a transfer from one schedule to another. The amounts appropriated for the various purposes hereinafter set forth shall in no event be exceeded unless by specific authority of the Commission, by ordinance, authorizing a transfer from one fund to another.

All books of accounts, warrants, orders and vouchers, or other official reference to any appropriation, shall indicate the appropriated fund involved or to be drawn upon by the code number set forth in the column marked "Code" as hereinafter set forth.

A typical section of the detailed appropriation to a functional sub-division is as follows:

DEPARTMENT OF SERVICE

DIVISION OF WATER

Bureau of Pumping and Supply

Expense

Code				Schedule	Expense	Appropriations
	Personal Service					
80 A 1	Salaries					
	Chief Engineer (1)	$1,800	per yr	$1,800.00		
	Engineers (3)	1,350	per yr	4,050.00		
	Firemen (3)	900	per yr	2,700.00		
	Oilers and Wipers (3)	1,095	per yr	3,285.00		
	Janitor (1)	900	per yr	900.00	$12,735.00	
80 A 2	Wages					
	Boiler Cleaners (3)	$3.00,	313 days	$939.00		
	Steamfitter and machinist	4.40,	313 days	1,377.20		
	Laborers	2.00,	1,760 days	3,520.00	5,836.20	$18,571.20

	Contractual Services		
81 B 2	Contractual Repairs	$2,500.00	
81 B 5	Public Utility Service, N. O. S.	10,000.00	
81 B 6	Special Service	1,200.00	13,700.00
	Supplies		
82 D 1	Chemicals, Drugs and Medicines	$250.00	
82 D 2	Clothing, Dry Goods and Notions	100.00	
82 D 5	Fuel	18,000.00	
82 D 6	Minor Instruments	500.00	
82 D 7	Oils and Lubricants	2,000.00	
82 D 8	Stationery	50.00	
82 D 9	Other	50.00	20,950.00
	Materials		
83 E 2	Machine and Metal Materials	$900.00	
83 E 4	Paints, Oils and Glass	50.00	
83 E 5	Other	200.00	1,150.00
Capital Outlay			
	Equipment		
84 F 3	Machinery and Implements		250.00
	Total		$54,621.20

While funds are appropriated in great detail for specific purposes, the appropriation ordinance provides sufficient flexibility for practical purposes. Without going into the advantages or disadvantages of a functionalized budget the fact remains that for Dayton, its budget worked and proved effective for control of expenditures. Merely with the consent of the manager a department head may interchange funds freely within the column marked "Expense"—as for example, the manager may authorize transfers from code 82 D 1 to 82 D 7, etc., but to make a transfer from one appropriation to another, as from code 81 B 5 to 82 D 1 the authorization of the commission is necessary. Thus though allowing adequate flexibility, a positive control over the budget is retained by the manager.

In addition to the above mentioned sections comprising the budget, there remains collective and supporting data not incorporated but which is furnished the manager and the commission, and informs them of the work done and the cost of operating the various functions of the community.

The method employed in Dayton for preparing the budget is the same as that in other similarly governed cities. The manager receives the estimates from the departments on uniform sheets furnished by him. These estimates are gone over by him with the

respective department heads, at which time definite data in the form of records must be submitted to the manager before he recommends amounts to be allowed by the commission. Before submitting his budget to the city commission, the manager has reduced the total request to within the estimated income for that year. The commission then reviews the budget with the manager, receives his explanation for the recommendations made and makes such changes as it sees fit. It may be noted that in Dayton, except for a few minor revisions after discussions at the public hearings, the budget was passed practically as the manager recommended.

The effectiveness of the Dayton form of budget and the control over funds which it affords was demonstrated in 1914, when the manager was able by following the budget to turn a probable deficiency into an actual surplus at the end of the year. In June, due to a threatened shrinkage in receipts, the departments were notified that a reduction in appropriations might be necessary. Immediately upon receiving the final returns from taxes for the year, on August 31st, cuts in the budget were made amounting to $45,000. This reduction in appropriations was made, however, in sufficient time to allow of a revision of the work-program of the several departments, and, without having eliminated any major functions, or discharged any employe, resulted at the close of the year in a balance of $5,600 remaining in the treasury. This presents a significant contrast to conditions under the old régime, when for a succession of six years an annual deficit of $60,000 was incurred and the police and fire departments were reduced in numbers, all because a properly classified budget and adequate accounting to supplement such budget were lacking.

For 1916, it will be recommended that the budget of Dayton be elaborated in accordance with the procedure proposed for New York City by the New York Bureau of Municipal Research, and which has been adopted with modifications by Springfield, Mass., upon the recommendation of its local Bureau of Municipal Research. The plan calls for the following:

1. An explanatory text by the city-manager explaining new features necessitating requests for funds.
2. A financial program with a resolution fixing the revenue.
3. An appropriation ordinance prepared in the form in which the city-manager desires it to be passed.

4. Supporting data consisting of
Summaries of financial statements, comprehending
Balance sheet
Operating account
Surplus account
Debt statement
Fund statement
Summaries of estimates, comprehending
Comparative summary of actual and estimated revenues, showing actual revenues for the past two years and estimated revenues for the next ensuing year.
Comparative summary of actual and estimated expenditures, showing actual expenditures for the past two years, and estimated expenditures for the next ensuing year, classified by
"Organization units"
"Functions" or kinds of activity
"Objects of expenditure" or things purchased
"Character of expenditure" distinguishing expense from capital outlay, fixed charges, and contingencies and losses
"Funds" or classes of funds to be charged.
Supporting detailed schedules of estimates, comprehending
Detailed analysis of comparative, actual and estimated revenues classified according to
Character or method of raising
Organisation units in which they occur

Scientific budgets are not inherent to the commission manager form of government, but this scheme of government is constitutionally the most conducive to the promulgation of a logical budget. The fiscal policy is an executive problem. The executive is responsible for the proper functioning of the various city departments, and it is to him that the success or failure of an administration is accredited. It is his duty to plan the work to be carried on and it is within his province to know what funds are necessary for the proper execution of his plans. To the executive, therefore, should be granted the power to initiate financial measures, and to the legislative body should remain the duty of authorizing funds and holding the executive accountable for results proportionate to the expenditure of funds.

Such a state of affairs has not been easy of attainment under the federal plan of government prevalent in American cities.

Dayton's condition prior to January 1, 1914, is typical of that to be found in hundreds of cities today. Under a modified form of the federal plan, members of council, the mayor, auditor,

treasurer and solicitor were elective officials. The heads of the departments of public service and public safety were appointed by the mayor, as were the members of the Park Board and Board of Health.

The budget was made up by the finance committee of council, from estimates submitted to them independently by each department head. This committee conducted hearings with the city officials, and in it resided the power to determine what salary increases should be granted, and what the work program for the ensuing year should be. The tentative budget was then presented to council which passed it, without inquiring further into the merits of the appropriations, except to assure themselves that favorite sons were receiving the salary increases and that their respective districts would be benefited to some extent. In other words, the legislative body of the government controlled administrative problems.

The mayor, who was supposed to be the head of the city and responsible for the administration of affairs during his term of office, could exercise no positive judgment in the formation of the budget. Council as well as most of the other officials were directly responsible to the electorate and unless all happened to belong to the same political party no incentive for coöperation existed. In fact as was the case in Dayton for two years prior to the inauguration of the commission-manager government, there was continuous discord and strife between the executive and legislative departments because of a difference in political faith. Accusations of discrimination against the mayor's departments, whether just or unjust, were frequent, the mayor did not attend the meetings of council and was not present at budget hearings unless specially invited. Needless to state the invitations were neither numerous nor urgent.

Coupled with these conditions, which are products of the federal form of government, is the difficulty of allocating responsibility for inefficient administration. The blame is shifted from the executive to the legislative branch and vice versa, with the result that no intelligent judgment can be formed by the citizen-body.

Although partisan bickering and diffusion of responsibility are largely eliminated in the straight commission plan, yet this form of government does not lend itself readily to a scientific budget pro-

gram. The fundamental drawback of this plan of government is the combined administrative and legislative powers vested in the same body. The commission initiates and executes measures and is judge of the results accomplished. It votes itself appropriations upon data satisfactory to itself and controls expenditures made by itself. Disinterested regulation is precluded.

Furthermore, each commissioner, being an administrative head, is vitally interested in the success of his particular department and in the amount of money appropriated for his use. He will bend every effort to secure funds adequate for the production of good results, and to bring this about it will frequently be found necessary to resort to log-rolling and combining with certain of the members of the commission against the remainder.

Contrasted to both of these types of city government is the commission manager plan, where the manager is the head of the administrative phase of the government and alone responsible for the operation of the various departments. He receives the budget estimates from all the departments and by virtue of his powers can demand adequate information to substantiate the requests. These estimates with his recommendations and supporting data are presented to the commission, which after conferences with the city manager and public hearings, makes the appropriations.

Log-rolling and personal consideration in appropriating funds are precluded under this system. The manager is accountable to the commission for the successful administration of the affairs of every department; one function cannot be sacrificed to another, and everything being equal he will recommend appropriations to the relative urgency and importance of the work to be done. The commission is disinterested in so far as the individual departments are concerned and no commissioner is identified with any particular subdivision of the city government. Being accountable as a whole to the electorate for an efficient administration of all the departments, the commission will apportion funds in such manner as to produce the most desirable results for the community considered as a unit.

The possibility of sacrificing judicious appropriations because of friction between the legislative and executive branches is eliminated because the continued employment of a city manager signifies harmonious relationships between him and at least a majority of the commission.

By having the department heads responsible to him and removable by him, the city manager controls expenditures. Frequent cabinet meetings such as are held in Dayton and reports of current appropriation balances enable the manager to keep in close touch with the progress of the work and with the adequacy of funds. He is then in a position to make curtailments and to recommend increases as the occasion presents itself.

While the commission manager plan seems to be the best medium for efficient administration in city government, material progress can be made only through the continued interest in public affairs by the citizen-body. The increased purchase value of the public dollar in the commission manager cities is the outcome of placing responsibility for spending the money, on one man, to whom the public turns for results. Such, at least, is the case in Dayton where as never before are the acts of the city officials being followed. As soon as the public demands to know where the money is coming from and how and why it is being spent, budgets will be gotten up and the information needed to interpret budgets intelligently will be supplied.

Recent events point to just such developments in city government. The injection of the business man into municipal affairs, the strengthening conviction that administering a city is a specialized business and requires specialists, the growing conception that city business is a matter of dollars and cents and not of bosses and parties, will all contribute to the dispersion of the air of mystery which has surrounded municipal government and to the introduction of those methods which have made private business in this country so eminently successful.

THE BUDGET AS AN ADMINISTRATIVE PROGRAM

By Henry Bruère,
Chamberlain of the City of New York.

The year 1916 promises to be a memorable year in the development of budget practices in America. There are two conspicuous advanced steps now under consideration, both formulated by the New York Bureau of Municipal Research under the leadership of Dr. F. A. Cleveland. The first relates to the establishment in the state of New York of a definite budget procedure. This new procedure will center in the executive responsibility for determining financial policies and authorizing the use of public funds in the performance of state business, and is the first constitutionally prescribed budget procedure provided in American state government. The second relates to the further development of the budget practice in the city of New York, which during the past ten years has gradually evolved from chaos into a complex system of controlling expenditure of public funds through a meticulously detailed appropriation ordinance.

The bureau's proposals in both these fields mark, for the present, the culmination of the widespread thought that has recently been given to better control of the financial operations of the governments in America. I cannot do better than to commend to those interested in the scientific and at the same time the practical methods of budget making, a careful reading of the bureau's explicit statement of its proposals for New York City published in January, 1915.[1]

The present volume contains numerous papers on the scientific aspects and theory of budget-making. My own purpose is to consider some of the practical problems involved in administering public finances and in determining on sound financial policies. First, let me review briefly the present status of budget-making in New York City, with a word of reference to the evolution of existing practices. I select New York City because it has taken

[1] *Next Steps in the Development of a Budget Procedure for the City of New York.*

leadership throughout the whole of America in breaking away from the confused and mischief-breeding methods of appropriation, once universal and still widespread, to a carefully conceived plan of correlating financial authorizations with work expectations and administrative responsibility. Because New York has been the pioneer, it is, in consequence, largely the victim of its own experimentation. As in every other government, departures from established practices, though difficult to make, once made, readily form themselves into routine, crystallized habits. New budget methods, instituted in the first instance to overcome specific abuses, and conceived one by one as these abuses were publicly recognized and sought to be corrected by official action, though of value in accomplishing their immediate purpose, have not aggregated themselves into a harmonious program correlating all the features of a proper fiscal policy.

It is this coördination and the consummation of a complete program that the Bureau of Municipal Research undertook in the submission of its notable document which now serves as at least the basis for the review of present practice and the formulation of a more broadly conceived practice for the future.

Ten years ago, appropriations in New York were in the nature of licenses to spend public funds, with only such restrictions as were imposed by general descriptive titles of appropriations or specific statutory requirements. It is conceivable that the form of budget prevailing in New York in 1906 was the result of a gradual accretion to a rudimentary financial structure. Never had an attempt been made to analyze or picture the character and variety of municipal activities, nor to correlate in any specific way the quantities of work to be done with the authorizations of funds by means of which the work was to be carried on. From time to time, by reason of legislative enactment, there had been added to the budget specific authorizations. This process continuing through a period of years finally evolved a great volume of appropriations which, with subdivisions into departments and occasional special classifications into items for salaries, wages and supplies, represented the form of budget in vogue in New York City until ten years ago.[2]

[2] The conditions prevailing in New York ten years ago still exist in many cities of the country, for clear budgetary statements are still the exception rather than the rule in America.

In 1906 the first attempt was made to break through the haze of meaningless appropriations to discover what services were contemplated to be performed in pursuance of them. The historical method was adopted. That is to say, an analysis was made of past expenditures, and these past expenditures traced through vouchers, payrolls and books of account and through items of appropriation against which they had ultimately been charged. It was then seen at once that the process of evolution had not coördinated appropriations with the functional classification of activities in the departments. The practical result of this defect was that those who made the appropriations were not called upon to consider the sums requested or finally authorized, in terms of prospective activities or the specific needs of units of organization. Department heads recognized in authorizations no specific mandates of work to be performed, and consequently were free to utilize appropriations once obtained for whatever purposes might subsequently seem to them wise during the fiscal period to which the appropriations applied. There was no opportunity presented for the consideration of prospective charges against the funds of the city by taxpayers and civic bodies in terms of service desirable or otherwise. Budget making was merely a compromise between the compelling exigencies of work, or the political or personal persuasiveness of those making requests, and the political inexpediency of increasing too rapidly the city's annual outlays.

It was this condition which the first attempt at clarification in 1906 sought to remedy. This attempt consisted in the subdivision of appropriations by functions, according to groups or lines of activities. This functionalizing, or segregation as it came to be known, made possible the consideration of requests in terms of prospective service, and formed the basis of a specific agreement between the appropriation authorities and administrative heads to spend money allotted to them for the purposes indicated in the budget statement.

It was found, however, that *functionalizing* did not accomplish all that was expected of it. There still remained the possibility of developing forced emergencies which would inflate appropriations before the end of the period to which they were expected to apply, and the further possibility, in numerous cases, of utilizing sums which were allowed on the theory that they would be used for the

purchase of supplies, for salaries, or vice versa. The door was left open for the subversion of appropriations intended for salaries to political purposes by withholding expenditures at the beginning of the year in order that the rate of spending might be increased at the end of the year under the promptings of a political campaign.

In short, there did not exist in the city of New York, as there did not exist generally throughout the cities in the country, the character of administrative responsibility or the method of administrative control in departments responsible for expenditures which would ensure the proper use of funds even when allotted under restrictions imposed by functional segregation. This condition, brought out in specific instances, prompted the institution of further devices for controlling administrative discretion through the appropriation ordinance or budget as it is called in the city of New York. These devices consisted in the:

1. Establishment of salary schedules under functions, showing the number of positions and rates of pay authorized for the performance of work;

2. Laying down the rule that, except in specifically indicated instances, the rate of salary expenditures must not exceed for any one month one-twelfth of the total annual allowance, thus preventing the particular exercise of discretion which customarily resulted in increasing the rate of employment prior to the preparation of the new annual estimate or the holding of a political primary or election.

Supply and equipment appropriations were treated in the same way. That is to say, they were analyzed in considerable detail according to the object of expenditure, so that department heads asking for funds were bound to utilize them for the purposes for which they had requested them, rather than for some later developed need or for a purpose not revealed at the time the authorization was made.

In addition to these fundamental restrictions on spending discretion, numerous administrative rules were laid down, as, for example, requirements that supplies should be purchased under specifications formulated by the board of estimate and apportionment, to prevent the unequal use of public funds for material of different grades for like purposes, and the prohibition of transfers between certain accounts because of abuses resulting from such transfers. This method of restricting the discretionary spending power of administrative heads developed to its height in the budget of 1913, when upwards of twenty-four conditions were laid down to control the use of appropriations.

The method of budget appropriation which thus gradually developed, and which I have briefly outlined had this characteristic: It was conceived not by those responsible for administering the departmental affairs, but by those responsible for granting funds. It was prompted not so much by the desire to expedite the performance of public business, as to prevent age-long and conspicuous misuse of public funds which under lax organization and ineffective administration had become characteristic in New York as in other American cities. The purpose of the new budget method was in theory a negative purpose; that is to say, it was inhibitory rather than directive. But in practice this budget plan has worked a great many positive benefits. It has compelled department heads, in preparing their annual estimates, to scan the activities of their departments, not sectionally or in general terms, but item by item through the whole functional structure. It has served in a measure the purpose of the balance sheet, of an operating statement and cost accounts by affording an opportunity to match results with expenditures both to those responsible for obtaining results and to the appropriating authorities. It has revealed for the first time to the public the scope and range of city activities, and has made it possible in numerous instances to prevent unwise expenditures by compelling a detailed justification of requests in advance of authorizations.

The segregated budget plan of New York has operated to save millions of dollars which might have been spent without chicanery or desire for waste on the part of officials, but merely because they were permitted to obtain funds without careful self-analysis or analysis by special agencies which the segregated estimates have occasioned. But with its advantages the segregated plan has developed certain conspicuous disadvantages. These the bureau in its brochure points out in detail. I shall mention one or two to illustrate their character.

In the first place, the development of segregation produces in a city the size of New York with its vast variety of activities an appropriation ordinance of almost unwieldy proportions. Segregation by functions allots units of organization to specific activities which, if available, might profitably be utilized for service in a number or all of the divisions of a department. It ties down in advance authorizations for supplies according to prospective

functional use, although it is generally impossible to estimate in advance the quantities of such supplies which will be required for each function with the result that there are uneconomical purchases or evasion of budget requirements. In other words, segregation results in a degree of regimentation which restricts and in a measure paralyzes the freedom with which the organization provided in the appropriations may be employed, or the funds for purchases may be utilized.

So much for the New York budget practice as it has developed during the years of experimental improvement. There are, however, numerous omissions in the present practice which it is now proposed to repair. These omissions relate chiefly to a method of stating appropriations, the observance of distinction between the budget and the appropriating ordinance, the inclusion in the budget submission of a statement of the means of its financing, and the submission for public information at the time of the promulgation of the budget ordinance of a statement of the city's finances, its fiscal operations during the previous period, and the facts regarding the city debt.

In New York City the practice has not prevailed which is elsewhere followed of including in the budget authorizations a complete statement of permanent improvements to be financed by the use of borrowed funds. Only such part of the expenditures for public improvements as are represented by salary and incidental charges are included in the appropriation ordinance, the contract and open market order expenditures being entirely omitted. These it is now proposed to include.

To facilitate the freer exercise of proper administrative discretion, and to provide a more complete financial instrument therefor, are the purposes of the proposed revision of New York City's budget practice. As outlined by the Bureau of Municipal Research, it is proposed to divide the annual financial instrument into two distinct parts: *First*—A budget prepared by the board of estimate and apportionment after analysis of departmental estimates, to be submitted by that board to the final appropriating body, the board of aldermen. Accompanying the budget, there are to be submitted: (1) A financial program for next year; (2) a work program, indicating the activities to be performed or services to be rendered pursuant to appropriations; (3) the method of

financing authorizations; (4) statements showing the general financial condition of the city. *Second*—The appropriation ordinance proper. The budget, under the New York charter, does not become law until finally approved by the board of aldermen. The board of estimate and apportionment has, in practice, always prepared the budget in the form of an appropriation ordinance, the board of aldermen having authority only to reduce, not to increase allowances proposed. The Bureau of Municipal Research suggests that the board of estimate shall exercise a closer supervision over the expenditure of authorizations and that this supervision shall be continuous and not restricted merely to the itemization, terms and conditions of the appropriation ordinance. This supervision is to be exercised through the formulation of a work program, and through the subsequent allotment, monthly or otherwise, during the course of the year, by the board of estimate of funds from the appropriations to departments to carry out this work program. The budget or appropriation ordinance itself is to be changed in form. Instead of detailed items of appropriation by functions, departments are to be allowed appropriations in lump sums by objects of expenditure, *i. e.*, for salaries, wages, equipment, etc.

In short, it is proposed to exercise through the appropriation ordinance control over the total expenditures for personal services and total expenditures for purchases and other contractual relations. It is not proposed that there shall be an attempt, as now, to exercise through budget appropriations control over the quantities of work to be performed or the functional use of authorizations, but that this control shall be exercised through the work program and correlated accounts and reports. By this device appropriations would be made for each department under general headings as the following:

Personal service;
Supplies—classified;
Purchase of equipment—classified;
Materials—classified;
Contract or open order service—classified;
Contingencies;
Fixed charges and contributions.

These appropriations would be made for an entire department, and not, as now, for each of the numerous subdivisions of a depart-

ment. It would not be necessary, as now, for department heads to obtain specific authorization from the board of estimate to transfer funds from one account to another if the acutal requirements as developed during the year do not correspond with the estimated requirements as laid down several months before, when appropriations were determined. It would be possible, for example, to shift one employee from one division to another without restriction, except as I shall subsequently point out, and to purchase supplies in advance, making allotments to individual divisions as requisitions may determine. For an entire department it is urged there be established schedules of positions conforming to the standard groups and grades laid down by the board of estimate and apportionment in the standardization of city service now in progress. For supply appropriations, definite statements of the various classes of supplies required for the entire department are to be furnished, listed in accordance with the classificaton established by the board of estimate and apportionment, and these are to be purchased under standard specifications similarly prescribed.

Up to this point, in the form of the budget the difference between the present method and the proposed method consists merely in the elimination of the classification by functions and the treatment of departments as single administrative units. The purpose of this change is to expand the now restricted discretionary authority of department heads and to make more flexible the use of departmental organization. It is proposed also, to correct abuses developed through the attempt to control by functions the use of supplies in advance of their purchase, and to remove the confusion resulting from attempting to reflect the expenses of departments through appropriation accounts rather than through operating accounts.

A forward step is taken in the suggestion of the work program. As now prepared, there is lacking in the budget a specific understanding as to the quantities of work to be performed as a result of authorized expenditures. The amount of appropriations have been increasingly correlated with detailed explanations of proposed work to be performed, furnished verbally by department heads at hearings on the budget, or educed through examinations by accountants assigned to the investigation of requests by the budget making authorities. But these projected activities are

not specifically formulated into written terms which may serve as the basis for supervisory control either by department heads with repsect to their subordinates, by the mayor with respect to departments under his control, or by the appropriating authorities with respect to all departments of the city government.

The bureau's proposal requires that there be included in the budget as submitted by the board of estimate a statement showing the expenditures by functional activities in detail corresponding to the detail required for proper administrative accounting control of departmental activities. Thus, for the bureau of child hygiene in the department of health, there would be shown proposed expenditures as follows:

Administration and other general business;
Medical inspection and examination of school children;
Examination and treatment of school children for diseases of nose, throat, teeth and eyes;
Technical instruction and direction of nurses;
Sanitary inspection of buildings, medical examination of children in institutions and day nurseries;
Investigation of persons and granting permits.

These expenditures would be classified, according to the bureau's suggestion, under six headings, as follows:

Expenses other than upkeep;
Upkeep of property and equipment;
Capital outlays;
Fixed charges other than pensions;
Pensions and retirement salaries;
Contingencies and losses.

The total of the authorized detailed expenditures in the work program for all divisions of the department would equal the total authorized for the department for salaries, supplies, equipment, etc. Thus, the appropriation ordinance would provide the means by which the work of the departments is to be done, and the work program would state in terms of proposed expenditures the uses to which these means were to be directed, according to the detailed functional activities of the department.

The bureau's plan proposes that there shall be made by a responsible member of the board of estimate and apportionment, quarterly allotments of funds appropriated for carrying out the

work program as submitted by a department head. By this suggestion it is sought to maintain control over the specific use of funds, but it presents the difficulty of practically requiring, quarterly, a complete review by the appropriation authorities of departmental activities. A better method would be to make the appropriation and allotment for the entire year, and to authorize the execution of a work program throughout the year unless on the request of a department head it is desired to amend it within the limitation of the appropriation ordinance.

By whatever method it is finally determined to exercise control over activities, it is recognized as desirable that there shall be a close correlation between the appropriation of funds and the obligation to perform specific services. In my view it is not material whether the current revision of the work program for the year is submitted for the approval of the appropriating board, provided there is established adequate executive control over the use of funds whereby the responsible head of the government may be kept informed through reports of the current use of funds and the current results obtained. Department heads will be made to account for all deviations from the work program approved as a part of the budget authorizations when they come before the appropriating authorities in the following year for new allowances.

The success of the liberalized budget plan as suggested by the Bureau of Municipal Research would depend on the complete development and skillful use of the instruments of intelligence and control which have been and are now being provided in the government of the city of New York. These instruments consist of accounts and reports, agencies of investigation and inspection, and special advisory staffs established by the board of estimate and apportionment. The change in budget method is not in itself so important as the fact that the time has come when the relaxation of restrictions may be safely considered. There has come about in a remarkably short time a complete alteration of the attitude of the public officer to his executive responsibility. Instead of mere opportunism, evasion and compromise to which the average public officer of a decade ago was driven by political conditions or by lack of method and organization, department heads are now seeking to increase, day by day, the quality of service performed by the organization responsible to them, and to exercise increasingly effect-

ive discretion with respect to the work for which they are responsible. Because of the exceptional character of its personnel, its conspicuousness, and the ease with which the public could deal with it, the board of estimate, the financial board of New York City, for years served as a shield between the political rapacity or administrative slovenliness of department heads and the public interest. Now, more and more, department heads are better prepared to exercise intelligence with respect to the administration of their departments than it is possible for a central body, such as the board of estimate, to acquire through personal contact or the advice of advisory staffs. The means which the board sought to develop for the purpose of exercising control over irresponsible and incompetent department heads are now the means which responsible and competent department heads themselves desire for effective control over their own work responsibilities. It is no longer necessary to compel departments to adopt modern accounting methods, it is no longer necessary to explain to departments the wisdom of adequate stores control, it is no longer a part of the work of reform to urge the establishment of cost records. These things are now desired by department heads as the means of assisting them in the discharge of their administrative responsibilities.

Thus, the restrictive purposes of the board of estimate and apportionment as expressed in the conditions of appropriations and minutely itemized authorizations of funds are coming to coincide with the administrative aims of departmental managers. To the extent to which these managers recognize the need for definite planning of work, the establishment of economical methods of operation, the close control of operative results, just to that extent will it be feasible to release them from the restraints of the present budgetary restrictions. When these things are accomplished, as they are now rapidly in process of accomplishment in New York City, there will be substituted for the inanimate control of an appropriation ordinance, the animate and directing control of a responsible and directing central executive department.

Because no machinery has as yet been developed for summarizing and interpreting currently the results of departmental operation, as reflected in accounting and service records, the chief instrument available to the mayor for control of departmental operations is the annual budgetary estimate. The estimate, however, has hereto-

fore been inadequate because of its failure to provide a definite work program, and because it does not correlate results accomplished with expenditure. Accordingly, executive control continues to be exercised very largely through the consideration of incidents in administration, and through the planning of new activities or special developments of old activities to meet exigencies as they arise.

A continuous and progressive direction of the multifarious activities of the government has never been exercised by the chief executive and cannot now be exercised because of lack of organization as well as information through which it may be achieved.

In order that the board of estimate and apportionment might more adequately discharge the functions of financial control, it established two principal agencies. One, the bureau of standards, is charged with the formulation of standards for supply and equipment specifications, and the standardization of compensation for various grades and classes of service throughout the city. This work has resulted in providing the board with exceptionally comprehensive information regarding the needs, organization and methods of the various departments of the city government. In order that this information may be utilized advantageously, the bureau is now employed by the board of estimate and apportionment to review requests for funds which involve the payment of salaries and wages as well as the purchase of supplies and materials. In this way, as an incident to its appropriating power, the board of estimate has gradually acquired an authoritative position on the executive side of the city government as well as the appropriating side. Departments may not increase compensation or alter organization without the consent of the board obtained or denied as the result of an investigation by the bureau of standards.

The second agency is the bureau of contract supervision which is charged primarily with the review of specifications and the approval of contracts executed for public improvements. As an incident to this function the bureau is currently assembling cost data with respect to various public improvements and accumulating expert information regarding the structural equipment needs of the city. It has become, therefore, an agency of direction as well as appropriation in respect of those matters which involve new

construction or the purchase of equipment chargeable against corporate stock.

These agencies which are subordinate to the board of estimate, the body of financial authority, provide information which is indispensable to intelligent executive direction. Their activity has developed naturally out of the more careful methods of budget preparation evolved by the board, and they are providing the means of supervising the administration of the budget which now occupies a considerable part of the attention of the board. The mayor has available to him now, as heretofore, the investigating staff of the commissioners of accounts. They, however, are not in a position to influence the organization and methods with the same compelling authority as the bureaus of the board of estimate which report on requests for appropriations.

In respect of the actual operation of the city government, therefore, the development of a systematic budget program in New York City has transferred, in considerable measure, the opportunity and means of detailed executive supervision from the mayor who is the chief executive of the city to the board of estimate and apportionment in which, though a member, he does not occupy a controlling position. This unbalanced condition will in a measure be obviated by the establishment of definite work programs to serve not only as a basis for appropriation, but as a basis for executive supervision.

The government of a great city, loosely constructed as most of them are, consists of a growing number of practically independent departments. These departments are each equipped with their special advisory technical staffs and are in a better position than the executive to determine on needs and policies. The practice has prevailed in New York, therefore, of executives relying upon department heads not only for administrative work, but for suggesting policies and for supervising their execution. Advantageous as is the practice in many ways of allowing, for example, initiative to department heads and giving latitude in the development of their own plans, there is this disadvantage: Each department seeks to enlarge its scope of activity and build up its own organization without regard to the conflicting needs of other departments. In putting in force a program of economy and efficiency, the chief executive of the city is confronted with the necessity

not only of curbing the natural tendency to expand which exists in every department, but with the difficult task of finding the means, through better organization and more efficient methods, to provide additional services where they are imperatively required without increasing the aggregate cost of government. The advisory staffs of the board of estimate and apportionment, engaged as they are in the preparation and administration of the budget, will become increasingly well-equipped to devise and put into force improved processes and more effective organization.

In order to protect the executive responsibility of the mayor and at the same time to preserve the effectiveness of the budgetary control exercised by the board of estimate and apportionment, it is apparent that the mayor as the head of the corporation is called upon to take leadership in the direction of the fiscal activities of the board of estimate and apportionment of which he is chairman. Not to do so would result either in neglect of his responsibility to maintain active supervision over the administration of departments or duplication of the agencies of supervision. New York is therefore confronted with the necessity either of recognizing in the board of estimate a body of executive authority, or of revising its budget method to the extent of vesting in the chief executive responsibility for the preparation of the annual estimates and the supervision of their expenditure. This executive responsibility in preparing the budget estimate is one which will be exercised by the governor if the new plan of budget procedure laid down in the proposed new constitution of the state is put into effect. In the case of the state, as ultimately it is to be expected in the case of the United States, the chief executive will assume the responsibility for budget planning exercised by cabinets in parliamentary governments but heretofore exclusively exercised by legislatures and administrative departments in American state and city governments.

The board of estimate in New York is neither a cabinet nor a legislature. It is a body of officials individually responsible to the electorate and without collective responsibility for the administration of the city government. To achieve effective administration as well as competent financial supervision, the city of New York must presently choose between a government of board control and the transference of the agencies of supervision from the

control of the appropriating authority to the control of the mayor. Under the present charter there are difficulties in the way of centering this control in the mayor, because a large part of the government of the city is under the direction of the borough presidents, who are members of the board of estimate, but who are not in any sense responsible to the mayor for the conduct of their departments.

It is clear, however, that executive control cannot be intelligently exercised without the use of the power afforded in determining on appropriations and the opportunity which the investigation of requests presents for obtaining precise information regarding departmental needs, methods and activities.

As a practical matter, no formulation of a program of service is feasible in a great government which does not concern itself primarily with the community's ability to finance that program. The budget, therefore, is the basis upon which administrative planning and control must be predicated. A department of health must scheme out a complete program for health service, but it will never be able to execute that program until it is first able to persuade the appropriating authorities to grant funds with which to carry on the activities which the program demands. A growing city is continually presenting increasing demands for service. To meet these demands there are only two alternatives open:

1. Provision of increased funds, or
2. The more effective utilization of funds already granted.

An intelligent appropriating body will seek to demonstrate to an administrator his ability to perform increased service without adequate appropriations by more effective utilization of existing appropriations. To make such a demonstration it is necessary for the appropriating body to be informed in detail of the organization and administrative practices of the department in question, as well as of the service needs of the community. Recognizing this need, the present mayor of New York has sought in various ways to anticipate the demands of the board of estimate not only by directing department heads to refrain from asking for additional funds until every means apparent to them for effecting economies are exhausted. In addition to this he has opened the door to continuous investigation of departments by the board of estimate agencies, and has supplemented these investigations with studies

made by special staffs reporting directly to him. The results of these efforts to achieve economy are reflected in the annual estimates of the departments and in the authorizations of funds based upon them. The budget, therefore, in New York City has become not only a means available to the legislative department of the city of New York,—the board of estimate and the board of aldermen,—for control of departmental expenditures, but furnishes as well the basis for executive supervision.

This is the purpose of a complete budget procedure. It should not merely be the expression of authorizations, but should be the summation of executive direction with respect to the scope of municipal activities and the methods of their administration.

THE GERMAN MUNICIPAL BUDGET AND ITS RELATION TO THE GENERAL GOVERNMENT

By Karl F. Geiser,
Professor of Political Science, Oberlin College.

To a proper understanding of our subject it seems necessary to reverse the order suggested by the title and first explain the relation of the local to the general government. No attempt will be made to explain in detail the complicated relations of the German municipality to the various governmental units of administrative areas within the German Empire, though a complete study of the municipal budget would require it; for every taxpayer living within a rural or urban commune contributes directly or indirectly to several governmental organizations above the municipality. Obviously many of the sources of revenue of both the state and the imperial governments lie within the city. The income tax, for example, is a source of both state and municipal revenue, while the unearned increment tax, introduced into Frankfort in 1904, was adopted by the Imperial Government in 1911. It is now provided by law that this tax shall be collected and administered by the various states and the proceeds are to be divided between the imperial, state, and municipal treasuries. In practice, however, this tax is collected by the municipal authorities who may, by sanction of the state, levy a supplemental unearned increment tax not to exceed 100 per cent of the imperial tax. I mention these facts here merely to show the complicated financial relations between the local and general governments that we may better appreciate the problems presented to the budget makers.

Before entering upon details, other facts of a general nature should also be kept in mind. In considering German municipal practices it should be remembered that the German Empire is composed of twenty-six more or less independent states, that each of these states has its own legislative body, its own administrative officials, its own political subdivisions and its own system of local government. A mere glance at the history of Germany—its former

numerous petty states, its local customs, its independent cities, its leagues and confederations and its comparatively recent Empire —will enable us to understand why there are still differences in the administration of local affairs in different parts of the Empire. The administration of finance forms no exception to this general statement. Whatever may be said, therefore, concerning the policy of one state should not necessarily be assumed to apply to all states. However, it should be observed in this connection that there is coming to be more and more uniformity, in the administration of local matters, through the influence of the central government, through national municipal congresses, through numerous journals devoted to local government and through the readiness of one state to adopt a superior system that has proved successful in another state.

Since Prussia comprises about three-fifths of the area of the Empire and contains, in round numbers, 40,000,000 of the Empire's total population of 65,000,000, we may properly regard that state as not only dominant in the Empire but as typical of German local administration. At the same time, against the tendencies toward local uniformity through the forces mentioned, especially through the dominance of Prussia, must be placed the fact—the most cardinal fact of local finance—that there is a wide latitude of local autonomy. The German city is a city of general, not delegated powers and may do everything not specifically denied it by the state or the imperial government. This fact operates against uniformity. But whatever degree of difference or uniformity exists, from the standpoint of the individual the municipal budget must take into account the fact that every taxpayer within the municipality must or may contribute in some form, directly or indirectly, to the following governmental or administrative organizations: (1) The Empire, (2) the State, (3) the Province, (4) the Government District, a subdivision of the province, (5) the Circle and (6) the Comune, of which there are two kinds—rural and urban.

From first to last, each one of these jurisdictions,—whether organized for purposes of general or local government, whether a subdivision of a larger government used for purely administrative purposes or a government largely independent in itself, such as a city—has a set of administrative officials, assistants, clerks, and employees, some of whom, in connection with their general

work of administration, are also specially organized for the administration of finance. While the finance administration of both the Empire and of the state is carried on by a division of the respective ministries of finance and charged with only financial matters, there is in the cities no special municipal budget commission or board of estimate. Every phase of budget making is in the hands of the regularly constituted city officials. A word should, therefore, be said concerning the general city organization. This consists of two general organs of government. First, there is the council, elected by a popular vote, a body with functions similar to those of an American municipal council. The second organ of city government is an administrative board, at the head of which stands the bürgermeister or mayor. This board, called the magistrat, acting in a collective capacity controls and directs the city government; but the individual members also serve as heads of departments and in various other capacities. They are elected by the council, the number being usually one-fourth to one-third of that of the council.

The magistrat prepares the business for the council, and supervises municipal enterprises; it has custody of the revenues and documents; it cares for the civic property, appoints employes, represents the municipality as a corporation and acts as an agent for the state and imperial governments in matters assigned to them by law or by the higher officials. Among the most important duties thus assigned are those pertaining to finance. Certain forms of taxation are of course classed as federal taxes, such as imposts and excises, the latter including postage stamps, bill-stamps, the inheritance tax, a tax upon spirits, beer, tobacco, sugar, and salt. The collection and administration of these taxes come entirely within the jurisdiction of the federal government but in practice many of them are levied by means of the state and local authorities, and in some instances the general government divides a portion of these revenues with the state or with the state and municipality, as in the case of the unearned increment tax, already noted, which, by the way, is both an imperial and a municipal tax.

As in America, there is a growing tendency in Germany, on the part of the general government, to encroach upon the original sources of state and municipal revenue. The inheritance tax is a good example of this tendency. As the unearned increment tax,

though first used in one of the German colonies, was first used on the continent in Frankfort where its successful operation suggested itself as also a convenient source of federal revenue, so the inheritance tax was first a Prussian tax being provided by an elaborate law of that state in 1891. In 1906, in connection with a movement for the reform of imperial finance, the Prussian law was incorporated into a federal statute and the inheritance tax became a federal tax with the provision, however, that one-fourth of the gross receipts from this source should be turned over to the various states. Such changes in the sources of revenues obviously necessitated the combination of national, state and local functions and the mutual administration of finance is a natural consequence. It should not, however, be assumed that the encroachment of the general government upon the field of local finance has seriously crippled the municipalities, for they have been quite free to adopt new methods and they have readily found new sources of income. The high order of German municipal statesmanship and the wide latitude of local autonomy have furnished the motive and the occasion to solve the problems involved.

Having considered some of the relations between general and local finance, we may, it is hoped with a better understanding, consider some of the chief features of the municipal budget in particular.

While the laws of Prussia permit a city to plan its budget for one, two or three years, the yearly budget is the rule, the financial year beginning April 1, and ending March 31. The leading facts in budgetary procedure are as follows: From the reports and estimates of revenues and expenditures presented to it by the various administrative departments, the magistrat, *i. e.*, the administrative board, already described, makes an annual estimate not later than January 1 preceding the fiscal year. This estimate must be published for public examination and criticism for a period of eight days after which it is formally presented to the city counci whose approval is necessary before it becomes the established budget. At the time of the preliminary estimate a copy is sent to the authorities superior to the municipality. Their "sanction," however, which the law requires, is not necessary unless new taxes are imposed or old ones changed. If there is no objection by the superior authorities and the city council approves it, the estimates thus

finally established become the budget for the fiscal year following. In a word it becomes the financial law of the municipality and, after its final approval, it becomes the duty of the magistrat to see that all officials having any connection with its administration strictly adhere to the prescribed budget Special budgets may, however, at any time be presented if unforseen events arise to demand it; but this is seldom the case. When it is necessary, however, the procedure followed is the same as that of the regular budget. The mere fact, however, that a special budget is permitted by law is more important to us than its details, for it suggests one of the most cardinal principles of local finance as well as of local government—the freedom allowed by the state to cities in the management of their local affairs.

The form and details of a municipal budget are not prescribed by general law; that is left to the local officials, yet certain general and well defined practices, common to all budgets, enable us to set forth their main features. It may be added in this connection that there are numerous standard works dealing with municipal budget-making that have done much to unify their form and content.[1] Municipal tax congresses and frequent recommendations and suggestions from the ministries of the interior and of finance also tend toward local uniformity.

The municipal budget (Haushaltsetat) is made up of two general classes of minor or subsidiary budgets, viz., (1) budgets which affect taxation, *i. e.*, either increase or decrease it; and (2) budgets which do not, such as savings bank-budgets, foundation-budgets, etc. Each of these general classes is again divided into two heads, comprising (a) *ordinary administration* (Ordentliche Verwaltung) and (b) *extraordinary administration* (Ausserordentliche Verwaltung); then follow, as occasion demands, the minor subdivisions or special items of administration whence the original or primary estimates are made; that is to say, the needs of the ultimate administrative divisions must be known to the makers of the general budget before it is drafted. In the order of presentation, however, the general budget precedes the separate estimates. It assigns to the various departments and administrative subdivisions the amount

[1] An excellent work upon this subject is A. Machowicz, *Grundsätze für das Etats-, Kassen-, Rechnungs-, Revisions- und Anleihewesen der Stadtgemeinden.* Dritte Auflage. Berlin, 1908.

which in the judgment of the magistrat may be expended during the following year. The general budget merely contains the results of the estimates of the separate departments, which estimates must be independently approved by the magistrat and council. The *ordinary* part of the budget includes the regular current incomes from communal property, the portion granted to the municipality by the state, province and circle; it also includes taxes and exemptions, dues, fees and miscellaneous contributions. The *extraordinary* part includes incomes from exceptional or special sources, as gifts, legacies, sales from land and loans. The divisions of a general budget as illustrated by Machowicz[2] are as in table on page 198.

Each of the divisions is again subdivided under the general headings of "Income" and "Expenditures" into minor divisions and items, and, needless to say, in an orderly manner, with references and cross-reference to audits, approvals and vouchers, until the minutest detail of revenue and expenditure is traced to its original or ultimate source.

While there is no state audit of local finance in Germany, as in some of our American states, there is little danger of mismanagement of funds, since a "revision" of the local treasury is made by the executive every month, on specified days, notice of which is given to the council beforehand so that it may appoint members to be present; and at least once a year there is a surprise "revision" of which no notice is given, at which either the chairman of the council or a member appointed by that body must be present. Further control of the budget is provided by requiring the magistrat to keep and publish a register (Lagerbuch) of the municipal property, both real and personal. This register, which is open to public inspection, is periodically revised and must be so prepared as to present a clear account of the tangible municipal assets.[3]

It would be impossible to place within the limits of this paper a comprehensive outline of the various sources of municipal revenues, since German cities are quite free to choose not only the kind of tax but also the objects of taxation. I will, therefore, confine my remarks upon this phase of the subject to a limited number of observations and to a summary of general results.

[2] P. 141.

[3] W. H. Dawson, *Municipal Life and Government in Germany*, 1914, pp. 344–45. This work contains the best account in English of German municipal finance.

PRINCIPAL BUDGET FOR 1907

Income								No. of B.	Description of subsidiary budgets	Expenditure											
Estimate for				Compared with 1906						Estimate for				Compared with 1906				Budget of 1907 closes			
1907		1906		Incr.		Decr.				1907		1906		Incr.		Decr.		Bal.		Addit'n	
M.	Pf.	M.	Pf.	M.	Pf.	M.	Pf.			M.	Pf.	M.	Pf.	M.	Pf.	M.	Pf.	M.	Pf.	M.	Pf.
									A. Ordinary Administration												
								2	General administration												
								3	Administration of estate												
								4	Buildings												
								5	Schools												
								6	Poor												
								7	Augusta Victoria Hospital												
								8	Disinfection												
								9	Welfare												
								10	Public baths												
								11	Public library and reading room												
								12	Fire department												
								13	Trade and traffic												
								14	Improvement												
								15	Cemeteries												
								16	Foundations												
								17	Capital and debts												
								18	Taxes												
									Total.....												
									B. Extraordinary Administration												
								19	Revenues and expenditures												
									Total.....												

Schöneberg.....190 .

.....Magistrat.....

The Prussian municipal ordinance of 1853 made no provision for limiting cities either in the rate or the objects of taxation. But a law of July 14, 1893, amended the former law by providing that taxes could only be imposed in so far as the revenues from city property, plus state grants, did not provide an income sufficient to meet the expenses of government. In general it may be said that the restrictions by the general government upon local finance administration are all indirect, suggesting means of avoiding excessive taxation and accumulation of debt rather than preventing the carrying on of communal enterprises and undertakings. Thus, for example, in 1907 the Prussian ministers of finance and of the interior issued a joint rescript commanding rural and urban authorities to redeem loans at a higher rate than had been the custom. The rate for the redemption of general loans was increased from 1 per cent to $1\frac{1}{4}$ per cent; loans for streets and similar work were now to be redeemed at $2\frac{1}{2}$ per cent and sewerage loans at 2 per cent. In 1912 another rescript advised greater caution on the part of the state authorities in sanctioning loans. To meet extra expenditures the general government also advised municipalities to establish emergency and new building funds; and Düsseldorf has for some time set aside an annual amount for a fund for new buildings; Cologne and other cities do the same. The superior authorities have also ordered one-third of the cost of new buildings to be defrayed otherwise than by loans. This restriction, it should be noted, applies only to expenditures for non-productive purposes; there are no objections on the part of the central authorities to establishing land-purchase funds by means of initial loans; nor are there any general restrictions upon the local tax rates, such, for example, as we have in some of our American states, which prevent cities from meeting the necessary expenses of government or from reaching out into new activities which would really benefit the whole community. In a word, the state says to a city, in effect:

Develop your own sources of revenue, but tax your citizens as little as possible; you may engage freely in any kind of enterprise you please, providing you make these enterprises pay their own expenses and, in some instances, even pay a profit;[4] we shall be glad to advise you, but we trust you to govern yourselves well.

[4] The Prussian law of communal taxation makes a distinction between enterprises which may be carried on for gain and those which are described as *Anstalten* or "communal institutions" which are to benefit the whole public and are not intended primarily for profit.

This attitude of the state toward the local community throws the responsibility for efficient management upon the city, and, therefore, with the consciousness that its destiny is in its own hands, the city develops a high order of municipal statesmanship. Officials are chosen for their respective positions, not because they belong to a particular party, but for the same reason that American private corporations choose their officials, namely, efficiency. Indeed this is the chief explanation of why German public corporations and American private corporations are both successful. It would however be unjust to many American cities not to acknowledge in extenuation of mismanagement the fact of ill-advised and often unjust state interference, for no man can serve two masters. This interference on the part of the American state, of course, prevents the use of many profitable sources of income. Our short tenure of service also prevents our officials from planning a continuous, long-sighted municipal policy.

What this freedom from state interference means to a German city may be shown by a few examples. The present mayor of Ulm has held his position for a quarter of a century. When he entered upon the duties of office he advocated the purchase of land to carry forward an extensive housing policy, and during his administration about 1,500 acres of land have been added to the corporate wealth at an expense of $2,650,000. Of this amount 500 acres have been sold at a price exceeding the total cost of all lands purchased, thus leaving 1,000 acres free of debt which are now yielding a net revenue of $18,750 annually.[5] Here was a colossal undertaking which, instead of being a burden upon the city, has been its chief source of revenue. A similar example of municipal enterprise, though rather unusual in its results, is furnished by the little town of Klingenberg in Bavaria. It has a population of only 2,000, yet it owns forest, and other lands including a clay pit, from which it pays, not only all expenses of government, but also an annual cash bonus to its freemen. During a recent fiscal year, after paying all expenses of government and adding $500,000, to its reserve fund, it presented a cash dividend of $100 to every freeman. It would be a mistake, however, to suppose that German municipalities are, as a rule, free from debt; the illustration, just mentioned, has been given rather to suggest the freedom with which German cities may engage

[5] This statement applied to year 1912.

in profitable enterprises and thus relieve their budgets of excessive tax rates. As a matter of fact German cities have, as a rule, a large debt and the cost of government is, as in America, on the increase, owing in part to the high cost of living and in part to the large number of public enterprises and undertakings which in America would be in private hands. Thus the rural and communal debt in the Empire in 1907 was $26.50 per capita, while in 1910, the debt of eighty-four of the largest cities of the Empire, representing a population of fifteen and a half millions, was $74.25 per capita. But a large portion of this debt represents an outlay of capital engaged in profitable enterprises, and is therefore an actual surplus, a net gain to the municipality.

The relation of public enterprises to the German municipal budget, it will thus be seen, is an important one; in fact it constitutes the chief problem in budget making and I have given it special consideration because it is the distinguishing feature which differentiates a German municipal budget from an American municipal budget. What it means to the total revenues of a German city, and incidentally to taxation, may best be seen by comparing the incomes of the various sources of revenues with the expenditures for their cost, maintenance and administration. This comparison applies to all German cities and rural communes having a population of over 10,000, and is based upon a report of the imperial government made in 1907 and published in 1908.

Of the total gross revenue 33.2 per cent came from taxation, 25.9 per cent from communal enterprises and undertakings of all kinds, 5.9 per cent from the administration of communal estates and investments, 5.1 per cent from educational and art institutions, 3 per cent on account of poor relief, orphans and hospitals, 4.7 per cent from the building administration, and the remainder, 22.2 per cent, from the general, police and other branches of administration.

Of the gross expenditures, 23 per cent were for the administration of communal enterprises and undertakings, 17.4 per cent for educational and art institutions, 14.3 per cent for the administration of debts, 11.8 per cent for general and police administration, 9.9 per cent for building administration, 7.6 per cent for the administration of charities and hospitals, and the remainder, 16 per cent, for miscellaneous branches of administration.[6]

[6] These results are quoted from Dawson, pp. 341–342.

Limitations of space forbid an analysis and discussion of the various sources of revenue and the final distribution of that revenue, the results of which are summarized on page 201. It will be noted that of all of the sources of income mentioned, that from taxation yields almost exactly one-third of the total. The various forms of taxation, both direct and indirect, their history and application to budget making, form an instructive study in municipal finance. But I am compelled to content myself by appending two tables showing the kinds of direct and indirect taxes, the total income from each of these in various classes of cities grouped according to population, the per capita income from each group, and the percentage each group bears to the total of the total income from each source. These tables apply to Prussian cities and are taken from the *Kommunales Jahrbuch*[7] of 1913–14:

INCOME FROM DIRECT MUNICIPAL TAXES IN PRUSSIA REPORTED MARCH 31, 1912

Class of cities having a population	Total income		Percentage of total income from each source			
	Aggregate	Per capita	Income tax	Real estate tax	Trade tax	
Berlin	$22,587,500	$11.10	51.8	31.8	16.0	0.3
Above 200,000 (excl. of Berlin)	41,410,000	9.225	61.1	27.1	11.4	0.4
From 100,000–200,000	23,360,000	8.85	60.4	27.9	11.3	0.5
From 50,000–100,000	15,687,500	7.35	60.3	25.6	13.7	0.5
From 25,000–50,000	12,797,500	6.60	61.4	25.5	12.6	0.5
From 10,000–25,000	15,215,000	6.025	62.1	24.6	12.9	0.4
From 7,000–10,000	3,657,500	4.725	60.2	26.9	12.3	0.6
From 5,000–7,000	3,382,500	4.45	57.8	29.0	12.6	0.6
From 3,000–5,000	4,017,500	4.20	56.3	30.4	12.6	0.8
From 2,000–3,000	2,170,000	3.65	53.1	33.7	12.3	0.9
Less than 2,000	1,160,000	2.90	51.5	36.0	11.3	1.2
Total	$145,450,000	$7.55	59.1	27.7	12.7	0.5

[7] In translating the German "Mark" into the American denomination I have, for convenience, called the Mark equivalent to 25 cents; it is a little less.

INCOME FROM INDIRECT MUNICIPAL TAXES IN PRUSSIA REPORTED MARCH 31, 1912

Class of cities having a population	Total income		Percentage of total income from each source						
	Aggregate	Per capita	Conveyance tax	Unearned increment tax	Retail liquor licences	Beer brew and distillation tax	Amusement tax	Dog tax	Miscellaneous taxes
Berlin	$2,112,500	$1.05	52.1	25.4	—	8.6	—	13.9	—
Above 200,000 (excl. of Berlin)	5,217,500	1.175	44.5	18.4	2.2	10.4	15.4	7.3	1.8
From 100,000–200,000	2,760,000	1.05	39.9	15.6	5.1	14.1	13.3	8.3	3.6
From 50,000–100,000	1,630,000	.775	35.2	14.9	5.5	18.9	15.0	9.4	1.1
From 25,000–50,000	1,132,500	.575	37.3	14.2	4.8	16.3	15.2	10.8	1.2
From 10,000–25,000	1,177,500	.475	36.7	8.5	2.1	22.9	16.1	12.3	1.4
From 7,000–10,000	300,000	.40	41.1	9.9	1.0	20.9	12.3	12.9	1.9
From 5,000–7,000	252,000	.325	43.3	3.6	0.9	22.7	13.6	14.7	1.2
From 3,000–5,000	320,000	.325	41.9	5.7	1.1	24.3	11.9	13.0	2.1
From 2,000–3,000	190,000	.325	47.1	5.0	1.0	20.7	11.5	12.7	2.0
Less than 2,000	102,500	.25	44.0	3.2	0.6	22.9	11.6	14.0	4.2
Total	$15,197,500	$0.80	42.5	16.3	2.9	14.1	12.6	9.7	1.7

THE BUDGET PROCEDURE OF ENGLISH AND FRENCH CITIES

By D. C. Baldwin, A. B.,
Student, Graduate School, University of Pennsylvania.

The most vital facts concerning municipal budgetary procedure in England and France are the methodical manner in which these instruments are drawn up and voted upon, the careful balancing of proposed expenditures and estimated receipts, the rigid distinction drawn between capital and revenue accounts, and the earnest desire everywhere apparent to get a dollar's worth for every dollar spent.

While any comparison with similar conditions in America is discouraging, there is no doubt that two factors should receive some notice. The mere momentum of precedent and of long established custom has a steadying influence, while the more or less static conditions attending development in the older countries would have caused extravagant expenditure to be keenly felt. On the other hand our large areas of unsettled or sparsely settled territory, much of it rich in material resources, combined with a steady stream of mature, hard-working immigrants, all possessed with ambition for economic independence, have produced conditions so dynamic as to constantly react on the older portions of our country and to permit of only a qualified comparison with Europe.

But with the passing of the period of settlement and abnormal expansion, American cities, too, have felt the economic necessity of "counting their pennies," and serious attempts at municipal reform have followed rapidly. Of the varied experiments in city government of the closing decade, the fundamental element has been the determined attitude of the average elector, largely, no doubt, because his "pocket nerve" has been touched. Once possessed of an awakened citizenship, the specific system used to attain the end is of minor importance.

The city of Philadelphia, under a recent administration, repeatedly used the proceeds of thirty-year bonds to meet large deficits in current expenses. Even a cursory acquaintance with

the financial reports of their municipalities lets one feel that such a thing in England or France would be unthinkable. On the other hand, under the caption of "Refuse Disposal," Birmingham lists fifteen items for the past year. One or two may be of interest. The sale of old ash-pans brought in £233 and scrap iron realized £1,163. [1]

In the methods of financial control the English and the French city are in marked contrast, due largely to difference in political temperament. The English municipality is practically autonomous, and even the small measure of control exercised by the central authorities, the Local Government Board and the National Exchequer, are conceded grudgingly. The right of local self-government has become traditional and any contemplated extensions of central authority are viewed with suspicion and hostility.

In France, on the other hand, a large measure of local control has been sacrificed to the efficiency of centralized authority. The French municipality is largely a cog in a wheel, a unit in a graduated hierarchy leading directly to the Minister of the Interior, representing the President of the Republic. French municipal law is almost wholly comprehended in the code of April 5, 1884. This is a blanket grant of powers, extending to all cities alike. French cities may do anything not forbidden in its provisions, and for which they can obtain administrative approval.

English cities, however, may exercise only those powers expressly granted by Parliament. As a result they are constantly petitioning for special acts granting additional powers. Hence English municipal law is an indeterminate affair, a growth somewhat analogous to the English constitution itself.

For instance, the Birmingham Council, in its instructions to its Finance Committee, bases its authority upon seven general municipal acts, twelve special acts, "and so much of any other existing act of Parliament as relates to any of the said matters." [2] The English mayor is a figurehead and power is almost wholly centred in the Town Council. The latter does the bulk of its work through committees, of which Birmingham happens to have twenty-one.

Of these the most important is the Finance Committee. All other committees must run the gauntlet of its survey as regards

[1] *Financial Statement*, City of Birmingham, 1914–15, Estimates section, p. 40.

[2] City of Birmingham, *Municipal Diary*, 1914–15, p. 115.

the financial aspects of their activities, and the Finance Committee in turn is held to strict account for the finances of all committees, including its own. Through the Finance Committee must be made all warrants for payment of authorized appropriations. Upon it devolves the negotiation of all loans; the investing of sinking funds; the preparation of the annual Financial Statement submitted to Council; and the management of tax collections. It must permit no payments on revenues accounts to be transferred to capital account, except by its own approval. It has general charge of the Accounts and Financial Departments of the city. Most important of all, it acts as a Consultative Committee on Rate Estimates, considering with each of the other committees [3] (excepting those in charge of the public utilities) their financial needs for the coming year, and revising their estimates, if necessary, in the light of the expenditures as a whole. It then presents the revised estimates to Council together with the precept (tax-rate) considered necessary to meet such a budget. It must consider especially, any committee proposals which involve excess expenditure for new loans and report to Council upon the financial aspect of such proposal concurrently with such committee.

In the general instructions to all committees, there are similar provisions regarding their relations to the Finance Committee, thereby clinching the supervisory powers of the latter committee.[4]

Thus, upon the Finance Committee devolves the budget in its three phases of preparation, execution, and audit in a general way. Though the Finance Committee presents the estimates to the Council, the several committees of the Council are responsible for the expenditure with regard to the purposes entrusted to them, and it is expected that they will use every endeavor to keep the expenditure under each head of account within the amount voted by the Council.

The Budgets in French Cities

In the French city [5] it devolves upon the Mayor to prepare the budget and have it ready for Council's consideration in the May

[3] City of Birmingham, *Municipal Diary*, 1914–15, pp. 110–11–13–15.

[4] *Ibid.*, pp. 147–48.

[5] A large part of the material regarding French procedure has been drawn form Maurice Block, Dict. de Administration Française.

meeting. This is known as the original budget and is succeeded toward the close of the year by a supplementary budget.

The budget is divided into receipts and expenditures. The former is subdivided into receipts ordinary and receipts extraordinary. In other words, those that are stable and permanent and those which are irregular and occasional in their nature. The expenditures are subdivided into optional and obligatory. The former vest in the discretion of the local authorities: in the Mayor, if he can persuade Council to authorize his views.

The obligatory expenditures must be provided for, and provided, too, out of established income. They include, in general, such items as the maintenance of municipal property, the preservation of municipal archives, the salary of the city treasurer, the maintenance of the police force, the pensions of local officials, education, repair of local highways, etc. The Code of 1884 contains a provision making the maintenance of the personnel of the police in cities whose population exceeds 40,000 an absolutely obligatory item. The Code of 1884 lists over twenty such items. If they are not adequately provided for, the higher authorities will make forcible provision by a procedure known as *inscription d'office*, or official entry upon the budget. Cities whose annual receipts are below three million francs must submit their budgets to the prefect of their department (France is divided into 86 departments or provinces); those whose revenue is above this sum are subject to the Ministry of the Interior, representing the President of the Republic. If the Mayor and Council should prove obstinate in the matter of obligatory expenditures, the central authorities have power to suspend them from office. Once the French municipal budget is finally approved, it cannot be altered in the slightest degree.

The additional credits found necessary since the opening of the year, together with any new developments in the way of income, are incorporated in the supplementary budget. This, too, is drawn up by the Mayor and is considered by the Council at the May session of the year to which it applies, that is, a year after the budget whose transactions it completes. It is authorized in the same manner as the latter.

In addition to the supplementary budget, the Mayor draws up an administrative account extending from January 1 to March

31, that is, including the three complementary months during which settlement may go on. This statement shows actual receipts and expenditures to date. A similar report is prepared by the city treasurer and also an account showing the amounts of regular receipts and expenditures not yet collected or not yet paid out.

With these documents at hand, the Council proceeds to consider the supplementary budget, inserting as the first item the surplus or deficit which may appear from a comparison of the Mayor's report and that of the treasurer. Then come the regular receipts and expenditures not yet completed, as they appear in the treasurer's statement. They are followed by the extraordinary receipts [6] and expenditures, and under the latter division the Mayor can insert, to the extent of the available balance, those unforeseen expenditures which appear in his report.

If a supplementary budget faces an inevitable deficit, a new source of income must be provided for immediately to cover the same. The supplementary budget differs from the original in that the obligatory expenses have already been met. As Professor Fairlie has pointed out, these form the greater part of the original budget, thereby greatly reducing the discretionary power of the mayor.[7] If the contemplated expenditures seem to the higher authorities to be unwarranted, they may be rejected or reduced by a decree of the President or by a resolution of the prefect in charge of the department; but such authorities are not permitted to increase expenditures or to introduce new ones, except in so far as the same may be obligatory.

Fixing the Rate in English Cities

English cities, as a rule, are large property-holders and derive regular incomes from long-term leases. In addition, they receive substantial amounts from the management of their own public utility undertakings.

Birmingham [8] during the past year received a total of 145,162 pounds from utilities, in a total expenditure of 4,903,408. Leeds [9] received a total of 80,000 pounds toward a total expenditure of

[6] The proceeds of a special tax for the purpose of building a school-house or some municipal building would be classed as extraordinary income.

[7] National Municipal League, *Proceedings*, 1901, pp. 282–301.

[8] Birmingham, *Financial Statement*, 1914–15, p. iv.

[9] City of Leeds, *Annual Accounts*, p. xv.

868,257, while Manchester[10] received 100,000 pounds from its tramways alone during the present year.

The estimated needs for the coming year are drawn up. Then all income from property owned, profits from municipal undertakings and any other sources are estimated. The difference is the deficit to be met by taxation. The necessary "precept" or rate is calculated and recommended to Council by the Finance Committee. The chairman of the latter in submitting the estimates to Council usually draws attention to the past year's results, especially to those of committees which have either greatly exceeded their estimates or those who have worked below them.

The manner of levying the precept differs in different cities. Leeds has a city rate, a consolidated rate, and a highway rate levied by town council. In addition there is a poor rate levied by the Overseers of the Poor, but all are collected in one.

Birmingham levies but one, the borough rate, which covers the whole expenditure of the corporation which can be charged on the rate. The Overseers are by precept required to levy a rate necessary to produce the amount required. Of course, here as in Leeds, there is an additional poor rate to meet expenditure on Poor Law proper. These two purposes, together with the necessary expense of collecting, form the whole of the charges made in Birmingham. The two, when levied, are technically called the poor rate. The Overseers collect the rate half-yearly and pay over the councils precept by installments as the money comes in.

Audit in French and English Cities

The system of audit in English cities is very unsatisfactory. There are three auditors, of whom two are elective, and the third, known as the Mayor's auditor, is a councillor appointed by the Mayor. They all act independently of each other. They are supposed to serve without pay, and most of them do, and they generally perform their task in a hasty and perfunctory manner. It is rarely that a trained accountant occupies the position. Many cities of late years have made a practice of employing professional accountants, and have adopted provisions to this effect in their by-laws. This professional auditing is in addition to that done by the usual method, as the latter is not taken seriously in large cities.

[10] City of Manchester, *Estimates*, 1916, p. xvii.

In pursuance of the Education Act of 1902, the educational expenditures of the cities are subject to audit by representatives of the central authorities, and a goodly number of the small cities have preferred to have all the rest of their accounts audited in the same way, paying, of course, for the additional service. This practice is looked upon with much approval by the central authorities, as tending toward a needed increase of centralization, without arousing the hostility which such attempts usually precipitate. In fact, several cities such as Folkstone and Bournemouth have agreed to such a provision as the price of getting from Parliament the kind of a charter they wanted.

In France, on the other hand, we have a great national institution called the National Court of Accounts, a department under whose survey and audit must pass the whole of the accounts of national revenue and expenditure of the departments (provinces) and of all towns, districts and public institutions whose revenues annually exceed 30,000 francs. If a town's revenues fall below this limit all accounts must be sent to the Prefectoral Council for audit. In either case they are subject to a corps of trained experts maintained by the central authorities.

THE MOVEMENT FOR IMPROVED FINANCING AND ACCOUNTING PRACTICE IN TORONTO

By Horace L. Brittain,

Director, Toronto Bureau of Municipal Research.

The city of Toronto has increased in population from 238,642 in 1905 to 470,144 in 1914, or over 97 per cent. During the same period its assessed valuation increased from $149,159,206 to $509,366,151, or over 240 per cent, and the city taxes from $2,834,025 to $9,865,068, or over 248 per cent. During the last five years the necessities of a rapidly growing city have raised general taxation per capita from $14.71 to $24.84, or over 68 per cent, and special taxation per capita from $2.32 to $2.96, or over 27 per cent.

The rapid growth of the city demanded rapid extensions of public works and services, which in turn greatly increased the problems of city financing and municipal accounting and reporting. It is not strange on the one hand that the city's accounting and budgetary system should have been more or less outgrown during the last two decades or, on the other hand, that a popular movement looking toward better methods of fact-producing, of fact-reporting and of financing should have sprung up and gained considerable force under the unpleasant stimulus of the increasing financial burden of government.

In 1913, largely through the energy of one public-spirited citizen a committee of over one hundred citizens was formed to study improved municipal methods. This committee, known as the Civic Survey Committee, raised among its members a sum of $6,000 to pay for a first-hand study of administration at the City Hall. Having obtained the consent of the Mayor and City Council, a contract was made with the New York Bureau of Municipal Research for a report on five important city departments, *viz.*: The City Treasurer's Department, the Department of Works, the Fire Department, the Assessment Department and the Property Department. It is the first of these that particularly concerns us in this article as the City Treasurer is not only the chief financial officer of the city but pays the city's bills, receives directly or indirectly all the city's revenues

and is the chief accounting officer of the city, subject, with other city department heads, to the accounting control of the City Auditor.

The report of the Civic Survey Committee, prepared by the New York Bureau of Municipal Research, found much to commend in the accounting and financial system of the city. It states:

> In contrast to many American cities, the books of the department were found to be neatly and clearly kept and balanced with periodical regularity. . . . . In the main the accounting technique employed in the Treasurer's office is superior to that in most cities where surveys have been made. . . . . The records and accounts maintained in the arrears of taxes division are exceedingly well kept. They are balanced and proven periodically with the general ledger and it is possible at all times to ascertain the status of each individual item. As at present administered the office of the City Auditor (an independent official not in the Treasury Department) has many commendable features. The periodical regularity of its inspection of revenue-producing offices, its reconciliation and audit of current and arrears of taxes accounts, and the detailed audit of the Treasurer's general cash accounts are especially commended. The salutary effect of an independent audit of outside departmental accounts from time to time must of necessity be good.

As the report was intended primarily, however, to point out places where improvements could and should be made, time and money were not wasted in listing in detail the many good points of the system. The report concerns itself chiefly with constructive criticisms and recommendations concerning:

1. The administration of the city's finances;
2. The methods of accounting and reporting used by the city—methods which should make available at all times to administrative officers, members of council and citizens information about the city's financial conditions and the results of financial transactions.

Defects in the Administration of the City's Finances

Legal Obstructions Requiring Legislation. The revenue year does not correspond with the fiscal year. The fiscal year is the calendar year, but tax payments are made in July, September and November. This necessitates the payment of large sums in interest as the requirements of the city during the first six months cannot be met out of miscellaneous revenue.

The penalty for delay in paying taxes is inadequate and in fact encourages prolonged delay As a flat rate of 5 per cent only is charged on unpaid taxes no matter how long they may have been

in arrears, and as tax-rolls have in the past been held open for five or six years taxpayers have, in effect, been able to borrow from the city at rates varying between $\frac{5}{6}$ per cent per annum and 5 per cent. As the city at present has to pay from 5 per cent to 6 per cent for loans, this involves a heavy penalty in interest. In this connection it is worthy of note that the reforms recently introduced into the tax collection division in one year and a quarter have closed up all tax-rolls for 1909, 1910, 1911 and 1912, so that at present no arrears of taxes are on the books save those for 1913 and 1914. In future tax-rolls will be closed "at the end of the year succeeding the year in which they become due" [1]—a step in advance which will save tens of thousands of dollars to the taxpayers annually.[2]

The water revenue collection period does not correspond with the fiscal year. Water rates are payable semi-annually in advance on April 1 and October 1. If payments were made on January 1 and July 1 large sums of money would be available to the city much earlier in the fiscal year.

Lack of Effective Control Over the City's Finances. The Board of Control which is elected annually is supposed to be the city's administrative body. At present the formulation of a financial program is left to the incoming board with the result that the estimates are not passed until April or May and the first installment of taxes cannot be collected before July. This system means that the city has practically to operate without a program for five months in the year, the interest bill of the city is greatly increased, and the electorate is handicapped by having, for the most part, to pass on financial policies after the fact rather than before the fact.

The departmental estimates at present in use are inadequate although very considerable improvements have been effected during the past year. Standard forms for the preparation of departmental estimates are not used giving information with respect to cost and unit costs for each function, and costs for each organization unit, separating current expenses from capital outlay, and showing cost of all objects of expenditure. A few departments do supply such information but the majority have not accounts which could produce the necessary information to supply a basis for such estimates.

[1] *Civic Survey Report*, p. 20.

[2] These reforms were due largely to the continued recommendations of the City Auditor in his annual reports.

There is inadequate publicity in the whole budget-making procedure. Departmental estimates are given no publicity whatever, and the draft estimates, prepared from these, have a very narrow distribution. While deputations may be heard on particular features, there is no regular method provided for the taxpayers' cooperation in budget making.

While the draft estimates are prepared under the direction of the Mayor and Board of Control and submitted to Council in its name, it is hardly submitted as a definite recommendation of the Mayor or the board, although practice is perhaps tending toward this consummation so devoutly to be wished. The Mayor and Council have no opportunity to go before the people on a proposed program but only on a record of accomplishments. Even here, the division of responsibility, the lack of significant details supporting the estimates, and the lapse of time make it difficult to locate or enforce responsibility.

Although a city by-law provides for the establishment of grades in the city's service, as a matter of actual fact a civil list with carefully outlined grades and rates of pay does not exist. This makes it difficult to make intelligible that part of the estimates which deals with personal services.

Discussions of personal service items are apt to degenerate into discussions of the personal or official fitness of particular individuals in the city's employ.

At present the Toronto Council, like dozens of others on the continent, gravely attempts to control expenditure by passing vouchers before payment. This is evidently not only a waste of time, as the Council must act without sufficient knowledge, but it delays the passing of bills to such an extent as to cause the loss of large sums in discounts offered for prompt payment.

Methods Employed in Financing. The almost universal tendency to over-estimate miscellaneous income and under-estimate necessary expenses for the purpose of keeping down the tax rate has not passed by Toronto. The temptation to pass on the resulting deficit to posterity has usually been too strong to resist. It is an encouraging sign of the times that a decided check has been administered to both these practices and that there seems to be a determination to allow no overdrafts this year the excuse for which, in previous years, has

been an alleged or real under-estimate of necessary expenditure. Overdrafts have always been illegal.

It would be strange, indeed, if Toronto has sidestepped the pitfall of charging to capital account legitimate current expenditures. The outstanding Toronto example of this practice is the custom of issuing debentures to pay for repairs of the track allowance areas of the streets. As the franchise of the Toronto Street Railway expires in 1921, the terms of debentures issued have been decreased a year at a time so that the life of all debentures will expire in that year. This will make the final payments extremely large but will, undoubtedly, lead to the abandonment of the practice now in vogue.

In the past Toronto, in common with most municipalities, has not been at sufficient pains to coördinate the term of the bonds it sold with the life of improvements. The necessary facts were not available for the determination of the actual life of improvements. It is natural therefore that in many cases long term bonds were issued for short-lived improvements. An improvement in this respect is very noticeable and has been facilitated by the reorganization of such departments as Works and Street Cleaning which have developed or are developing modern systems of cost accounting.

Legal and other difficulties make local improvements costly. Contrary to general belief, however, special local improvement rates have not increased as rapidly as general taxation. The situation is best described in the words of the *Civic Survey Report:*

> Because of the present practice of having to wait until the entire cost of local improvement work is ascertained and all disputes are settled, and because the city must borrow the necessary funds to carry on the work, heavy interest charges for bank loans are incurred. Considerable delay in determining final costs is made necessary by expropriating more property than is ultimately found necessary in street widening operations. For that reason the city must wait until the surplus property is sold before actual costs are obtainable. Debentures cannot be issued until such costs are determined and the collection of assessments made against the property benefitted is necessarily deferred.

Lack of Adequate Supervision over the Administration of Finances

In the past it has been the practice to apportion from time to time debenture discounts to the various capital expenditure accounts with the result that very important facts necessary to sound financing were hidden or so obscured as to be of no effect.

At the time of making the survey the banks allowed 3 per cent on all existing city balances and charged the city 4½ per cent on all overdrafts up to the amount of city sinking fund deposits in the banks, "which means that the city was paying 1½ per cent interest for the use of its own money represented by cash in the sinking funds." The relation of this to the time set for paying the first installment of taxes is obvious.

The Treasurer, at the time of the survey, had no means of exercising effective supervisory control over miscellaneous revenue collection. This is the condition in most cities.

As, at the same period, the City Auditor had no means for performing an independent inspection of deliveries, and as he did not have in his possession copies of contracts or specifications, there was insufficient basis for the audit of claims. This condition still exists to some extent.

A year or two ago it was the practice of the City Auditor to sign all checks drawn upon the City Treasury, but recently arrangements have been made with several departments by which payrolls are covered by a single cheque, the individual payments being made by paymasters' cheque or otherwise. Much time, however, is still wasted on unnecessary details, time which the auditor is anxious to use in assisting in various necessary departmental accounts installations.

In 1913, it was customary to invest sinking funds in Toronto city debentures. One sale from the sinking fund at 17 points below par led to a large loss. Both these facts represent undesirable or even dangerous tendencies, especially when, as in Toronto, the sinking funds are not administered by an independent commission, but by the same authorities who have to raise money by the issue of debentures.

Recommendations re the Administration of the City's Finances

The following is a short statement of the recommendations of the *Civic Survey Report* with regard to city financing:

1. That the Mayor and Board of Control assume full responsibility for financial proposals to be submitted to the taxpayers just before the election at the beginning of each year. It appears that this method is at present legally impossible, but there is no lega

obstacle to the preparation of the estimates between October and December of each year so that they can be acted upon by the Council immediately after the first meeting in January. While this compromise would not establish responsible leadership to such an extent it would enable the city to operate under a program for ten months in the year instead of six and would save the city large sums of money in interest.

2. That forms of annual estimates be established which will show comparative expenditure data and estimates. These would set forth "actual as well as estimated expenses and capital outlay for each function or activity performed by each department or other organization unit, as well as overhead cost, including fixed charges." These should be further analyzed so as to show cost or estimated cost in terms of objects of expenditure, that is:

Personal Services
Contractual Services
Materials
Supplies
Equipment, etc.

3. That a budget be prepared which would show:

a. A comparative balance sheet showing current assets and liabilities and surpluses or deficits;
b. A comparative operation account;
c. A comparative capital account;
d. A consolidated fund statement, showing the condition of the general fund, capital account funds, special and trust funds, sinking funds;
e. A request for appropriations;
f. Detailed departmental estimates.

While it has been found impossible to secure all these reforms in budget procedure the draft estimates for this year were a great improvement on any submitted previously. The following quotation from the *Annual Report of the Toronto Bureau of Municipal Research* gives a clear idea of the present situation:

A completely scientific budget is, of course, impossible before the establishment of accounts which produce the facts upon which a scientific budget can be based. This fact has been persistently drawn to the attention of the city government and receives the heartiest assent of the City Auditor and City Treasurer, as well as other prominent officials of the city. That the City Treasurer and

the Assistant City Treasurer will work effectively along the right lines in respect to budget reform, is shown conclusively by the draft estimates for 1915 recently submitted to the Board of Control and the Council. For the first time the estimates contain, in addition to a column showing the actual expenditures for the preceding year and the estimates for the current year, a column showing the estimates for the preceding year. This is, therefore, the first budget issued by the city of Toronto which makes intelligent comparison possible.

Another excellent feature of the draft estimates is that expenditures and receipts, not directly affecting taxation, are placed on opposite pages, with corresponding items in corresponding situations on the pages. The previous practice was to place all the expenditures together and after them all the receipts. This made the process of analysis so formidable that the average citizen could not afford the time to make a study of the annual estimates. For the first time also the draft estimates are indexed, by letters and numbers of pages. In fine, the estimates are prepared not only with the end in view of giving information to those most familiar with the facts, but to make the getting of information easier by any citizen who has sufficient interest to study the city's program for the year.

Defects in Methods of Accounting and Reporting Used by the City

While considerable improvement has been made in the annual financial report of the city of Toronto, the following statements of the *Civic Survey Report* with regard to the financial statements issued before 1913, in the main, still hold good:

1. The balance sheet, or the most summary picture of financial conditions, is buried in a mass of detail where it is all but lost. The report is not indexed and it is only the man who has the tenacity of purpose and interest to turn through 570 pages who will find the balance sheet at all.[3]

2. In the "condensed statement of receipts and disbursements," there has been an attempt to combine in one form both an operation account (revenues and expenditures) and an account-current (statement of cash receipts and disbursements) with beginning and ending balances.

3. The "abstract of receipts and disbursements" has the same defect as the "summary" that precedes it, with a different classification.

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[3] Since this criticism was written the 1913 Treasury Report has been issued which shows the following improvements: The detailed statements of receipts and disbursements have been cut down until they occupy only 72 pages instead of 558 pages as in 1912. The detailed schedule of insurance on property has been condensed so that it now occupies but two pages and forms a valuable summary. The report is also indexed and reference to any statement is thus made comparatively easy. But the accounts are still prepared on a purely cash basis, no particulars of income and expenditure being given unless same was received or paid in *cash* during the current year and the balance sheet still conveys but little information to the average citizen.

4. The "detailed statements of receipts and disbursements" are little more than a printed register or lists of individual or detailed transactions of the city for a year.

5. The statement of "current assets and liabilities" is misleading in certain respects and fails to bring out essential financial relations. It does not give a clear picture of conditions about which officers and citizens are called upon to think.

With regard to the city's published balance sheet the *Civic Survey Report* states that it

cannot be of much assistance in thinking about Toronto's financial and business problems for the reasons that

1. It goes into too much detail for a summary statement—so much so that it does not help one to grasp at a glance significant relations which should be brought to public attention.

2. In so far as it presents a picture of financial conditions, it is confused.

3. There is a commingling of current assets and liabilities with capital assets and liabilities and the resources and obligations of the sinking fund.

4. From the statement presented, it cannot be determined whether there is a current surplus or a deficit, nor even what is the present condition of the cash account.

5. Current cash, capital cash, and trust cash are thrown together without taking into consideration cash reserves.

6. Neither the balance sheet nor the summary of current assets and liabilities is supported in all its items by the details of the report.

7. Questions raised by the balance sheet cannot be answered without special inquiry through the department of finance.

8. The only conclusion to be drawn is that the balance sheet now used is a makeshift and not an integral part of the reporting system.

9. In several instances, estimated figures are used which do not appear on the books of account.

Accounting and Reporting Recommendations

The defects in the Annual Report, of course, reflect defects in the system of accounting upon which the report is based. In order to remedy these defects the *Civic Survey Report* recommended as follows:

1. That a new form of annual report be adopted which will more clearly set forth financial conditions and results.

2. That a new general ledger be installed which will contain such accounts and only such as are needed in the preparation of summary statements showing assets and liabilities, revenues and expenditures, surplus and deficit and the condition of the city's funds.

3. That all supporting details of information, which are needed for purposse

of administration and for furnishing such analysis of summary accounts kept on the general ledger, be carried in detailed records.

4. That the supporting and detailed accounts be so classified that information in any detail or summary desired may be drawn off without re-analysis or duplication of work.

5. That the accounts of the general ledger and the detailed ledgers be independently posted so that the accuracy of statements when taken off the detailed records may be proved by being checked by totals to the general ledger control accounts.

6. That a summary statement of assets and liabilities in balance sheet form, revenue and expense account and statement of the condition of the city's funds be drawn off of the general ledger and published monthly; and that, quarterly, a detailed comparative statement of departmental expenditures be made available to the mayor, council and public press.

7. That the quarterly statements of expenditure be accompanied by comparative operation statistics furnished by departments in such form that units of cost may be shown whenever practicable.

8. That the statistics of expenditures be kept in such analysis as may be needed in the preparation of the annual estimates.

In making its constructive criticisms and recommendations the *Civic Survey Report* recognized that the heads of city departments were not personally responsible for defects shown. The following paragraphs from the report are significant:

In pointing to some of the obvious defects in methods of reporting of the treasury department, officers of this department are not charged with incompetence or neglect. Toronto officials are in the same situation as are the officials of other fast-growing cities. The current work increases rapidly, the daily routine demands on official attention are such that persons in responsible positions have little time or opportunity left to study the business system as a whole, much less to take the time needed to work out constructive plans and obtain the coöperation essential to a successful installation of new methods and procedures. Each d ay's work must be done or the business will stop. Each day is a full day. The larger the city the more difficult it becomes to make a change (1) by reason of the increasing demands on the responsible officers; (2) by reason of the large number of institutional adjustments which must be brought about to make any change effective. The working out of some systematic method of doing business and the installation of new procedure must necessarily be performed by persons who are relatively free from the grinding details of administration. The only solution is either in a temporary or permanent staff which is not charged with making the decisions essential to direction and control. As a matter of organization, Toronto, like most public corporations, has its full quota of "line" officers and men but is lacking on the "staff" side. So long as matters of this kind are left to men who must keep the wheels of business moving, those in command must find themselves at an increasing disadvantage. Changes may be made, and frequently as a matter of adaptation, but unless the whole subject of

institutional needs is taken up systematically, change after change in method will be made under circumstances such that while they may be adapted to getting better results, each change may increase the cost and red tape of doing business.

Toronto has been peculiarly fortunate in having had many years of continuous service of the principal officers in its departments. But the best thing that these officers can do for Toronto and for themselves is to focus public attention on the difficulties of the problem before them in order that they may have the support of public opinion in bringing about an adaptation of organization and methods to service requirements.

In the later months of 1914 the two chief accounting officers of the city, namely, the City Auditor and the City Treasurer, together with the head of the chief spending department of the city, namely, the Commissioner of Works, whose department has more accounting to do than any other operating department in the city, were appointed a committee to report on a reformed system of accounting for the city of Toronto. They visited personally several cities and later sent their chief accountants to go carefully into the details of the methods used in Philadelphia and New York City. They spent three weeks in the work. As a result of their study they issued a report to the Mayor and Board of Control making recommendations which if followed would supply practically all the elements necessary for a thoroughly modern accounting system.

At time of writing (June, 1915) definite action has not been taken upon this report by the city authorities but there is every reason to hope that such action will be taken before the time comes for the preparation of the 1916 estimates in the fall. In the meantime the departments concerned are continuing the making of detailed improvements which do not involve a uniform system of accounting for the city. For example: A distribution cash book has been established by the Treasurer's Department in accordance with a recommendation contained in the report above mentioned, while the improvements which have been under way in the Works Department and the City Auditor's Department for some considerable time are progressing rapidly.

If adopted, the plan will make the City Auditor actually, what he is now potentially, the controller or commissioner of accounts, while the City Treasurer will become practically a commissioner of finance. The rearrangement and clear definition of the functions of these two officials on the lines advocated by the report will constitute an immense step in advance.

As in the past, Toronto will meet her problems courageously. Her officials welcome any hints she can gain from the experience of other cities. This article is written with the hope that the history of Toronto's movement for financing, accounting and reporting reform may be suggestive to other municipalities.

COUNTY BUDGETS AND THEIR CONSTRUCTION

By Otho Grandford Cartwright,

Director of Westchester County Research Bureau.

As one's thoughts concentrate upon the subject of budgets and budget procedure for counties, the question projects itself insistently into the foreground: What bearing upon democracy has the preparation of a budget for the management of county government? Coerced to find an answer to this query before proceeding with discussion of the budget itself, I can do no better than to state here certain extracts from a report of Dr. Carroll Dunham, of Irvington, Vice-President of the Westchester County Research Bureau, in behalf of a committee appointed by the Bureau's board of directors to prepare a model county charter.

Dr. Dunham states the basic principles of democratic government briefly as follows:

1. Sovereignty resides in the people.
2. In a republic, government should be by those whom the people choose.
3. Government must be for the people.
4. Government administers a certain part only of the people's affairs (public affairs, and not private).
5. Its scope changes gradually, as time progresses.
6. Government must be efficient and responsible.
   a. To be efficient, the administrators must have authority.
   b. To be responsible, they must be answerable for their authority to the sovereign people.
7. To build a government logically and soundly upon these fundamentals, elect few officers. Do not handicap them by multitudes of other officers, departments and bureaus, with checking and balancing powers; but give those few officers power to appoint and remove subordinates.
8. Secure responsibility by publicity. Complete publicity, as to the details of public business and the acts of public officers, destroys opportunity for graft.
9. Enforce the keeping of full, simple, accurate records, open at all times to all people.
10. Let the officers responsible for the conduct of the government prepare in advance a complete budget, with full financial programs and full statement of financial condition.
11. Have fixed dates for the publication of the complete budget, and fixed dates for full public hearings thereon, open to all people.

12. In enacting the budget, provide that it shall be lived up to strictly during the period which it is to cover.

13. A sovereign must always be able to learn how his work is being done. When the people is the sovereign, as in American government, the people must have such full knowledge.

Dr. Dunham's fundamentals constitute the elixir of life of municipalities. The budget is the thing that keeps the blood coursing fresh and vigorous through the veins of government. When the elixir is low, the administration is impoverished and weak. When it is lavish, gluttony and coarseness result,—the administration becomes selfish and heedless.

Nothing is fool-proof. A budget, however scientific and complete, does not guarantee good government. Neither does keeping the weeds out of a garden guarantee good crops. But as it is certain that there will be very slim crops where weeds overrun, so it is likewise certain that the absence of proper financial provision will greatly reduce, if not completely nullify, the efficiency of an administration.

A government without a financial plan is as badly off as an army without munitions. Consequently it is not waste of space for *The Annals* to give to this subject the prominence of an entire volume, nor to emphasize therein the importance of the county budget in the grand tactics of financing public service.

Like the old parson in the *Wonderful One Hoss Shay*, I am given to firstlys, secondlys, etc. In discussing this subject, I shall try first to picture to the readers of *The Annals* the ordinary way of financing a county government; then to state some improvements of method accomplished in recent years; and thereafter to portray what a proper budget should be, and how it should be arrived at and its operation assured.

The Ordinary Way

From such incursions as, in the course of my experience, I have been able to make into the minds of men who are either concerned in any way in budget-making, or have from other causes given any thought to the matter, I have concluded that to the majority of men the term "budget" does not convey any definite meaning. A hazy concept, as of something pertaining to a bag of documents that contain a lot of bills to be paid, and a lot of other items that

will call later for the expenditure of a lot of money, if the governing body or council votes to authorize them, is what the word "budget" suggests to most people.

One afternoon I addressed a ladies' club of a nearby city on the need of a local budget exhibit. After I had ended, and was taking tea with the ladies, the president of the society remarked, with a puzzled look:

"You have explained perfectly the great advantages of a budget exhibit. Now I wish that before you go you would tell us just what a *budget* is, and then we will understand the whole subject."

Excluding students of finance and of public service, I think the usual understanding of a budget is almost as indefinite as that indicated on the part of the worthy lady president referred to.

But the term "budget," as used in this volume and in this discussion, is meant to include the entire financial plan made by a government for the work of its fiscal year. The detailed discussion of a full scientific budget will be taken up later.

In most municipalities, the elected or appointed rulers have not thought much further than the statute law requires them to think. Their financing, therefore, consists of providing for those things that the law says must be provided for. In county governments this is more than generally true, though some states are more advanced than others as to their statutory requirements. An example like Indiana, where the law permits the employment of a wide-awake accountant who keeps pushing into county financing successive advanced ideas and improvements, shows up immensely by contrast.

The usual procedure in making the county budget is resistance to "procedure" of any sort. It is rather inertia than procedure. It consists of yielding to the enforcement of the law that taxes levied on the county by the state, money borrowed by the county to meet emergencies and carry current expenses, and legal claims accumulated against the county, must be paid. If it were not for the law compelling these things, and for the urgent reminder of people who want the money which the county owes them, I am not sure that there would ever be a county budget in most states. The county goes much on the principle of the lazy man who gets trusted for everything he needs as long as possible, and only bestirs

himself to obtain money to pay accumulated obligations when he is urgently pressed by creditors.

When all items that have to be paid are gathered together, it is usual to put off as much as possible by borrowing on county bonds all that it is legal to borrow, and by refunding, where possible, bonds that have matured. Then the irreducible minimum is placed into the tax levy. There is nothing less scientific, less economical, and more inefficient or more extravagant than such a method of procedure.

In the county budget the board of supervisors, or county commission, or tax levying authority, must provide for two classes of expenditures, and may provide for a third class. The first class includes those disbursements over which the tax levying authority has no discretion. Such are taxes levied by the state upon the county, judgments pronounced against the county by a court of competent jurisdiction, salaries of county officers established by legislative enactment, and similar items. The second class includes expenditures which have to be provided for, but over which the tax levying authority has discretion as to the amount. The third class includes expenditures over which the tax levying body has complete control, both as to their existence and their amount. Such expenditures would include items of public service not specifically required by law, but which the county governing body might deem wise and necessary for the benefit of the county at large. The possibility of expenditures of this type, however, is commonly cramped by the narrowness of the powers conferred by law upon the county authorities.

Things ordinarily not provided for are industrial and social needs, which properly call for public management and public regulation, but which have hitherto been left to individual control, and the consequent management of which has been good or bad according as individual greed and selfishness or individual benevolence has predominated.

Some of these matters are regulated in some counties, but none of them in all counties, and all of them in no county. In determining what elements of such nature shall be turned over to public management or regulation, it is necessary to decide where the border line lies in Dr. Dunham's fourth fundamental, that government administers only the public part of people's affairs, and not the private.

Improvements in Recent Years

Some improvements have been made in recent years in a few states where they have adopted something in the line of budgetary provision. New York state has a law (General Municipal Law, §§30–38) empowering the state comptroller to prescribe a uniform scheme of appropriations for all counties of the state, but gives him no means to enforce its adoption or use. It rests largely with individual counties, therefore, whether the comptroller's budget plan will be used at all or not. Some chief essentials of a budget are lacking in the comptroller's plan. It does not prescribe a balance sheet; nor a working plan; nor current periodical reports; nor a statement of estimated funds available for budget purposes in the reduction of taxation; nor budget hearings; nor any safeguards upon the appropriations.

Indiana has an accounting law which prescribes budget estimates by each department head, to be presented on forms furnished by the county auditor. These forms are sufficiently detailed to provide for a fairly complete list of appropriations for the conduct of various county departments, but many of the elements of a budget which are lacking in New York state law are also lacking here.

Los Angeles County, California, with its new charter, has also made a great advance in budgetary provision within the last three years.

Perhaps one of the best types of county budget procedure at present in operation is shown in Westchester County, where the heads of departments are required to submit in advance requisitions for all the needs which they are required to serve during the fiscal year, the requisitions are passed upon by the finance committee, and the budget is then prepared and submitted to the board of supervisors in the following order:

In the first column, the amount of the requisition by the department head;

In the second column, the total amount required by each department;

In the third column, the amount allowed by the board to be expended by each department;

In the fourth column, the unencumbered balance of the fund remaining from the previous year, and applicable to such department.

In the fifth column, the amount of unpaid obligations of the previous year for the payment of which money is still on hand in the treasury; and

In the sixth column, the total amount of money to be provided in addition to the funds on hand.

These summaries are followed by estimates of municipal earnings,—that is, amounts to be received as current revenue from the earnings of the various departments; revenues due as refunds for advances made by the county, and revenues from other sources; and by a statement of the details of the requisitions for each county department, and each function and line of operation thereof.

The Westchester County budget lacks the following elements: (1) a balance sheet, or statement of the financial condition of the county; (2) a working plan; (3) provision for reports as to the condition of funds, and the comparison of operating cost periodically with budgetary provision; (4) provision for full publicity; and (5) certain safeguard provisions in the enacting statute or resolution of the board of supervisors. Moreover there is no investigation as to social or industrial needs of the county, and there is no provision for public hearings, the most democratic of all features of a budget procedure.

Ontario County, New York, has improved its budget and accounting and audit system by taking advantage of as much of the existing law as it found possible permitting such improvement.

Monroe County, New York, operating under the direction of a newly established bureau of municipal research, has adopted something approaching a more scientific budget, but still some of the above elements are lacking there.

Cities, particularly those that have acted under the guidance of the New York Bureau of Municipal Research, have advanced much farther, and have established very complete budget provision, attended by all the necessary provisions and safeguards to make it workable, and to prevent it from falling down in operation; but cities have centralized responsibilities, where counties have nothing of the sort.

The County Budget as It Should Be

In order to arrive at the direct and scientific way of approaching the preparation of a budget for a county, it is necessary to make sure that we understand the full significance of all that is comprehended under the term "annual budget," and we shall readily see that it is by no means a simple matter, to be put off until the latter part of a fiscal year, and then hastily constructed. It needs ad-

vanced study and provision, including extended and thorough examination into all the needed service to be financed.

The budget is a definite plan or proposal for financing present and future needs of the government. As there is a national budget for the national government, and a state budget for the state government, etc., so there must be a county budget for the county government, and it must be built much upon the same general plan as prescribed elsewhere in this volume for nation, state, or city.

In making the budget, the first thing to do is to find out what needs must be served, and we learn, as pointed out above, that there are three general groups, resulting entirely from the character of the laws, which confront the governing body of the county. The first is that of statutory levies. The state law provides that a county must pay its pro rata share of the state's expenses. The county is simply informed by the state authorities as to what such an amount is to be, and must include it in its tax levy. The county usually has maturing bonds to be paid. Such bonds must be placed in the tax levy, together with interest due on them. Occasionally there are judgments rendered by a court of competent jurisdiction against the county. Such judgments must be paid, and placed in the tax levy. Over matters like the foregoing, the county governing body has no choice. It simply must pay them.

The second group comprises statutory levies, over which the governing body has no discretion as to whether such needs shall be served, but does exercise control over the amount to be provided. Instances of such are the maintenance and operation of the various county departments established by law, and the salaries of various county officers and employees not fixed by statute. Salaries fixed by statute cannot be controlled by the county governing body, but such are few.

As yet, we have considered only statutory needs. There is another group of needs, which we have already indicated, that are never provided for in county government, and I would go further, I believe, than any of my fellow-advocates of a proper budget procedure, and besides having department heads, required to submit advance estimates of what they need to support their departments, I would advocate urgently the enactment of a state law to the effect that some means be provided for asking the public, in all the communities of the county, for statements of all things that they con-

ceive to be public needs, which should be served by county government.

This information might be obtained by public advertising. In such case, civic societies would urge various needs: one, that the county enforce industrial safeguards; another, that the county enforce sanitary housing regulations; another, that it control the sanitation of schoolhouses and medical inspection of children; another, that the county regulate local health ordinances and uniformity of health administration; another, that the county control municipal accounting, so that it shall be uniform in all the towns, cities, and villages of the county; another, that the county administer uniform collection of taxes; another, that it regulate the administration of justice, by substituting courts of inferior jurisdiction, with trained lawyers as judges, instead of the local justices of the peace, who are apt to become mere fee-chasers, and are frequently ignorant of the law.

Individual citizens would recommend other public services that should be performed by the county. These needs would then be considered by the governing body, and weighed thoroughly, and such as were deemed to be of sufficient importance would be incorporated into the budget provisions, as far as the county governing body might have power conferred upon it by law to make such incorporations. For others, held to be of sufficient importance, it would then ask further powers from the legislature. We should then have a budget serving community needs in a way I have never yet known them to be provided for.

It would be a misfortune, however, to have to rely entirely upon the county governing body for the judgment of the merit of the various needs. Consequently, each one who suggests any item of public service, not hitherto provided for and recognized as such, should be invited by the appropriate government authority to appear before it and extend his recommendations with all the supporting arguments that he might be able to prepare. Otherwise, his recommendations might be undervalued, and misjudged, and undeservedly set aside.

After all is weighed, assorted, classified, and fully prepared, of course the final proposals for public service are to be passed upon by the governing body which has power to enact.

Who should prepare the budget is a question of the gravest

importance. In state and national government there is no doubt that the chief executive is the proper person to perform this service, upon consultation with and the advice of his cabinet or department heads and such members of the legislative body as are most conversant with the needs of legislative, judicial, and other departments of government.

In the county government in most states, however, there is no such head, and the budget is usually prepared by a committee of members of the governing board, whether a board of supervisors, or commissioners, or what not. Such a committee cannot have either the understanding of the full meaning of a budget, or the personal interest in properly performing the work of budget preparation, that an executive head should have who is personally responsible in very large degree for the success or failure of the entire county administration. The man who is officially responsible ought personally to lay the plans, summoning to his aid such advisers as he deems best suited to give him counsel. This principle has been recognized in the amendments recently approved by the constitutional convention of the state of New York, which provide that the governor shall finally prepare and present the entire budget to the legislature, after a maximum of sixty days' consideration of estimates and appropriation bills.

Next in order must be considered the accounting features of the budget. Having established our catalogue of community needs, which it is supposed to serve, they will be classified and codified, under proper heads and titles, as a series of appropriations, to be made from county funds, when provided, and to be expended for the specific purposes named and for those only.

But the proposed appropriations for the current financial period are by no means all there is to a budget. The appropriations must be supported by several auxiliary statements, each in itself entailing more or less accounting analysis. The first of such statements would be a comparison of appropriations made in previous years (at least the two next preceding the year to be financed) for similar purposes, and explanations of the reasons for appropriations made for the current year for needs not hitherto provided for. Such a statement shows increases or decreases, and permits comparison of such increase or decrease with the growth of the county and the wealth and population.

The second statement which must be submitted is a balance sheet,—that is, a tabulation of the values of all properties tangible or intangible, which the county owns, and a corresponding tabulation of all the debts outstanding against the county, which must be paid either currently or in the future. The balance sheet should be so arranged as to contrast bonded debt with the value of the improvements for which it was incurred, and current liabilities with current assets in hand or available for their liquidation. The balance sheet would then show the surplus in hand or available, applicable to the support of the appropriations asked for the current year, which surplus should be divided into two elements, (1) capital surplus, and (2) current surplus. If there results a deficit, it should be shown in the same characters.

The third supporting statement should be a tabulation of all funds of previous years, of which there is either a balance or a deficit. The statement should be so arranged as to show what part, if any, of the balance of each fund is unincumbered and free for re-appropriation towards the budget of the current year, or if the total amounts to a deficit, what deficit should be added to each of the appropriations asked for for the current year, and what the total deficit so added should be. The total surplus, or the total deficit of the fund statement, should be identical with the current surplus or deficit as shown in the balance sheet.

The fourth statement should show the estimated amount to be received from indirect sources, such as municipal earnings, amounts paid into the county treasury from the state treasury, from the state school fund, the state highway fund, etc., and from other indirect sources.

The fifth statement should recapitulate:

a. The total amount of the budget appropriations;

b. The total amount of receipts from unincumbered fund balances, and from estimates from indirect sources which should be deducted from the total amount of the budget;

c. The difference which would be the amount to be raised by a direct tax.

This amount, re-grouped in such a way as to show the amount to be paid by each of the tax districts in the county (because in county government the tax rate does not fall evenly upon all parts of the county, as explained below) and the tax rate for each tax district, is then levied by the county governing body. With ref-

erence to the unevenness of tax incidence, it is only necessary to explain as follows: highway taxes are for districts outside of villages, and do not fall within the village corporation limits, because each village takes care of its own streets and highways; education taxes are for proportionately different amounts for the different superintendency districts and the different school districts, and these are locally levied, and not spread upon the whole county evenly; etc.

An auxiliary statement, accompanying the budget, should show the amount to be borrowed for capital outlays, so that taxpayers may know the entire amount which is being spent in the county for the current year. In New York State counties we never are informed of this total. Different bond issues are authorized by the board of supervisors at different times during the year for public improvements. For example, in Westchester County we are issuing bonds this year for purchase of properties lying within the Bronx Valley parkway; for the erection of various new county buildings, such as court house, penitentiary, and almshouse; for various highway purposes, as occasions may arise, and possibly for one or two bridges. At the close of the fiscal year only the county treasurer or the county comptroller is able to state just what amount of long-term indebtedness has been incurred by the county during the course of the year. The only item about which the citizens are broadly informed, regarding bonded indebtedness, is the amount of maturing bonds and interest which must be incorporated in the budget itself and paid during the year.

Now we come to the budget ordinance, or the enacting statute, which, in itself, deserves most serious consideration, but is, nevertheless, perhaps worse slighted than any of the other elements of budget making, as bad as they are. This ordinance must perform the following functions:

1. Authorize the appropriations which the governing body decides are to be expended.
2. Re-appropriate, for the purpose of meeting such appropriations, the unincumbered balances of the funds described above.
3. Add to the stated appropriations the deficits from previous years as part of the current year's expenses.
4. Appropriate the estimated receipts from indirect sources, to be used for similar purposes.
5. Levy the taxes necessary to be raised to meet the balance of expenditures.

6. Make all these things mandatory, not simply permissive.

7. Provide for the control of the authorized expenditures, by prohibiting the use of funds for any purpose except that specified.

8. Provide for an accounting system, coördinated in detail with the budget appropriations, so that all operations of the year may be traced in direct comparison with the original financial plan adopted at the beginning.

9. Provide a work plan, as detailed as possible, for carrying out the service planned in the appropriations, and provide for the payment for such service only as rendered, after inspection and certification by the proper county authorities.

10. Provide for full publicity, as to the operations of the plan, as to the service rendered by public employees, and as to the progress of county contracts for improvements and other service. Such publicity must include periodical reports, at least monthly, and complete records *open at all times to all persons.*

In no other way can intelligent judgment be formed as to the fidelity, competence, and efficiency of public officers and employees, or as to the adequacy of the general financial plan of the administration.

Summary of Important Features

1. All *needed public* service of any nature whatsoever, whether previously included in public service, or previously left to private or individual management, or previously entirely neglected and unprovided for, must be considered and financed; and all silly, fanatical, and in any way unsound proposals, and all merely ornamental and fantastic schemes, and all merely political partisan patronage plots disapproved and rejected.

2. Complete scientific statements of financial conditions, both as to ownership and indebtedness and as to funding operations, must accompany the scheme of appropriations proposed.

3. The enacting statute must provide for complete control of the operation of the proposed plan.

4. The most efficacious way of securing responsibility is by complete publicity, which is, in itself, cheap, simple, and entirely effective, and not by a complicated system of interlocking powers, with checks and balances, which is costly and complex, and has never proven to be efficient.

BUDGET MAKING FOR SMALL CITIES

By Lent D. Upson,
Executive Secretary, National Cash Register Company.

Even the most ordinary city has a budget in the sense that there is a periodic authorization to spend public money. However, the new city budget is more—it is a careful estimate of revenues accompanied by a definite program for spending them. In progressive municipalities such a program is only determined upon accurate information of the efficiency of each city activity, the necessity of its continuance, its cost, and its desirability as compared with the other work, that the community may be best served at the least cost. It is desirable to interest the citizens and officials of smaller communities in some methods of budget making, which, while assisting in administration, are not so red tape-ish as to prevent their use by those with neither time nor patience for the technicalities of municipal finance.

Who Should Make the Budget

The first essential to successful budget making is the preparation of the estimates by the administrative officers responsible for the carrying out of the work program. In the city manager form of government, this task naturally falls to the manager, assisted by the financial officer; in the federal plan, where the mayor appoints all departmental heads and is responsible for their proper conduct, the estimating of the city's revenues and their apportionment among the several departments belongs to this head of the government. However, in the average American city, there is unfortunately such decentralization—so many public officers responsible to no one but the electorate—that there is no central authority whose duty it is to correlate the financial requests of the divisions of the corporation. Consequently, the real preparation of a financial program is left unfortunately to a committee of the city council, who are unfamiliar with the relative departmental needs, frequently have political axes to grind, and who are not actually or popularly re-

sponsible for the conduct of government. This committee of council solicits their own statement of anticipated revenues from the city auditor and receives the miscellaneous estimates of needs which have been prepared without regard to available revenues. Out of this material they have the impossible task of creating a homogeneous program which will meet public needs.

Where such lack of centralization exists, it is desirable that the mayor of the municipality—who in the mind of the public is largely responsible for its administration—should bring together the representatives of the independent elements supported from public funds. Before this body he should present the current resources of the city and ask that they be properly apportioned. Here, by a committee of the whole, public needs could be correlated, absolute essentials approved, any surplus distributed, and the entire estimate, with supporting data, be prepared for presentation to the council. With such methods the chances of one activity of the city being over-emphasized at the expense of others are lessened, and the council is relieved of interfering with the detail conduct of the departments. The preparation of budget estimates by a responsible committee outside of the city council, and the approval or disapproval of these estimates by the council itself, would tend to place the responsibility for the government where it actually belongs, removing in some measure the burden of ineffectiveness, inefficiency, and shifting responsibility which cities now bear.

It has been suggested that estimates so prepared should be subject only to revision downward by the council. However, such a proposition is at present illegal in American cities, and draws its support from other than American municipal experience, if New York City be excepted. As a means of further reducing legislative interference, it is perhaps desirable in federal plan cities, particularly as applied to salary schedules. Where the budget committee is a creature of the council, as in the city manager plan, the scheme is not only impractical, but theoretically unsound.

How the Budget Should be Made

1. Revenues: An essential requirement for budget making is an accurate estimate of municipal revenues, and a resolution that appropriations shall be limited to such estimate. When the budget is prepared by a council committee, it is sometimes felt a hardship

to reduce the estimates of the various city departments to within the estimated current receipts. Frequently the entire requests are appropriated for, irrespective of the money which will come into the city treasury, leaving the burden of cutting the city's suit to fit the cloth to the city auditor. In such instances, if the auditor is not aggressive, departments will incur liabilities far in excess of the city's ability to pay, with resulting operating deficits.

The distinction of revenues from receipts as a proper basis for apportioning city expenditures has created a movement for the placing of city accounting upon a revenue and expense rather than upon a receipt and expenditure basis. Large cities, unhampered by state legislation, may logically base appropriations upon revenues accruing, issuing short time loans when such revenues are not actually paid into the city treasury during the fiscal period covered. The restrictions on such loans by state authority as well as by local opinion preclude the use of revenues in place of receipts as a basis of budget making in the average American municipality. However, in appropriating receipts, proper allowance should be made for unusual payments which are not normal revenues. For example, licenses may be paid into the treasury during the closing days of the year, although not actually due until the beginning of the new fiscal period. Such funds should be held inviolate for the period for which they are intended.

The estimate of income should accord with a definite classification which is followed continuously by the accounting officers of the municipality. Only such a classification, conscientiously adhered to, will permit the fiscal officers to determine with reasonable confidence the accuracy of the estimate. The variation in sources of revenues makes it impractical to present a suggested classification here, but one which has been given much thought and which has proven serviceable may be found in the budget of Dayton, Ohio.

After a conservative estimate of operating revenues has been made, and the budget committee has definitely resolved that the city appropriation shall be kept within this estimate of current resources, there follows the more detailed task of preparing the estimates of the several departments. This is the real basis of budget making, and upon its being done correctly, depends the success of a budget, either in a small or large city. If the estimates are presented on miscellanous sheets of paper, salaries sometimes

grouped by themselves, three or four of the larger expenses segregated, and the remainder lumped as miscellaneous expense, and these sheets are used as the basis for the appropriations of the following year, it is a budget as typical of the average American town as it is typical of what a budget ought not to be. If, however, some little care and thought are given to the problem, these estimates will offer to the budget committee a statement of proven departmental needs, and to the public, a comprehensive idea of the work which the city proposes to do during the coming fiscal period.

2. Appropriations by Activities: It is essential that the value of city activities should be weighed one against the other, and to do this properly, these activities must be the units of appropriation. In smaller cities, while the desirability of appropriating to activities or functions is important, it is not as imperative as in larger communities. In the small city, the bureau or division usually represents the smallest unit to which it is feasible to appropriate. As cities become larger, it is necessary to break these bureaus into the various functions which they perform; as, for example, under the bureau of street repair, we have the activities of repairing brick streets, repairing macadam streets, repairing asphalt streets, etc. In the small cities, it is neither necessary nor expedient to have these separations in the budget itself. The budget commission, however, should go carefully over their departmental organizations, making such functional separations as are advisable.

3. Classification by Character of Expenditure: In order that any change in the assets of the city may be properly reflected in the city's balance sheet, and that the actual operating expenses may be known, it is necessary to separate estimates and appropriations into "Expense" and "Capital Outlay." In some larger budgets it is customary to make this separation according to "Administration," "Operation," "Maintenance," and "Capital Outlay." The first three items are really expense charges and in Dayton a year's experience proved such divisions to be decidedly impractical. The two divisions suggested, however, are easily made if the following definitions are carried in mind:

Expense comprises all items of expenditure necessarily incurred for current administration, operation and maintenance of the several departments; those for which the General Fund is reimbursed; and those for materials and equipment

in the nature of renewals or replacements, which do not add to the capital assets of the corporation.

Capital Outlay comprises expenditure of every character made from the General Fund which increase the capital assets of the corporation.

4. Classification by Objects Purchased: After the larger separation of estimates and appropriations into "Expense" and "Capital Outlay," it is necessary to make a further classification by objects of expenditure under each, which will apply to all departments, and which will become a part of the accounting procedure of the municipality. If the budget making authority is to give relative weight to the needs of each of the appropriating units, these needs must be expressed in the same terms. This classification by the kind of thing to be purchased varies in each city, according to the personality of the budget makers, but in broad, general lines, remains practically the same in every instance. While the New York classification is usually followed, it has been modified in Dayton to more nearly meet the needs of a small city. By a further deviation the sub-classifications under supplies are based upon the character of supply itself rather than upon the use to which it is put.

The classification, however, should present no considerable difficulty to the average budget committee. The classifications used in Dayton, Cleveland, Cincinnati, Reading, or any one of a number of cities, will probably prove highly satisfactory. The chief requirements are that some classification be decided upon, that the definitions covering the same be prepared and sent to the departments prior to the preparation of the estimates, and that the finance department follow this classification in the distribution of public expenses, in order that the actual expenses may be made known at the end of any fiscal period.

The Dayton classification has been found satisfactory in a city spending a million and a quarter dollars for operating expenses, but the subdivisions should be fewer in number if used in a municipality with a budget of perhaps less than five hundred thousand dollars. A brief outline of the Dayton classification is given in the article on "Budget Procedure Under the City Manager Form of Government" by Mr. Arch M. Mandel in this volume.

5. The Salary Schedule: A further important feature in the preparation of the estimates is the presentation of a salary schedule carrying the number of employees of each class, with the rate of

pay, or in case of labor, the total number of hours at each rate, with the rate per hour, noting increases in each instance. This is more desirable than appropriating a lump sum of money to each city department for salaries, and later passing a salary ordinance which carries the rate of pay of each class of employee.

In connection with the statement of salaries and wages desired, it is of assistance to have a comparison with the condition of the current year. At the top of the estimate sheets may be printed a summary, as follows:

Request for salaries,
Existing conditions,
Net increase in salaries,
Net decrease in salaries,
Net added force,
Net reduction in force,
Net total increase,
Net total decrease.

6. Uniform Budget Stationery: It is of no inconsiderable help, in fact it is almost necessary, that the departmental request be presented to the budget committee upon uniform stationery. Sometimes separate sheets are provided for each classification, but this is not necessary in small communities. It is sufficient if the uniform sheets, to be filled out by the departmental head, contain space for the

Code number of the proposed appropriation,
Title and
Rate of wage or price per unit,
Number of employees or quantity of supplies, etc.,
The number of days, or number of months,
Total amount,
Estimated balance at the end of the fiscal year,
Expenditures for corresponding items for the current and last two fiscal years,
Comparison of requests with expenditures for the current year, with increase or decrease,
Estimated stock on hand—quantity, unit, value and amount,
Allowance recommended by the budget committee,
Tentative allowance by the finance committee before the city council,
Final appropriation.

If such stationery is properly used by the departments, with the assistance of the accounting officers, it presents to the budget

makers necessary information for the preparation of a sound financial program. Each increase or decrease in requests is shown, and a decrease is measured, not over the appropriation of the current and previous years, but in comparison with the actual expenditures over these periods. The estimated balance at the end of the fiscal year shows the excess appropriation of the previous period. However, it is desirable that this balance should revert to the general treasury, rather than be made available for expenditure during the coming year by the department for which it was originally appropriated.

The budget committee now have before them in great detail the requests of the city departments. Here are the general work programs of each division, supported by the items of proposed expenditures. The budget committee can weigh the value of one activity as against another; eliminate one portion of an activity without injuring the remainder of the work; can definitely provide that certain activities shall not be followed, and that the whole strength of a division must be concentrated upon others. Salary increases are definite, and explanations can be asked for each. Additions to the force must be accounted for and justified. The departmental heads and their subordinates can be brought before the committee and asked to explain specific requests, specific increases, specific needs, and specific programs instead of generalities. Reductions in requests are much easier made when it is possible to effect the reduction of a dozen different items rather than of a grand total. For example, during 1914 it became necessary in the city of Dayton, owing to a shrinkage of revenue, to reduce appropriations by some $40,000. Such a cut would have been considered impossible, or at least would have worked great hardship to the various departments, had the appropriations been made upon the lump sum or partial lump sum plan. As it was, the estimates were available, broken up into four or five hundred different items. The several administrative officers were brought before the city manager, and each item studied, the officer stating the minimum which he could receive and still operate his department successfully. As a result, in two days' time there was a $40,000 reduction in the departments, which had reduced the activities of all without serious hardship to any.

7. *Appropriations vs. Estimates:* It is, of course, undesirable

that these estimates be passed as the budget itself, as such detail would unduly restrict administrative officers in their work. However, the extent to which administrators are tied down varies from city to city. It is usual to place in the budget the number of employees and their rate of pay, as well as the number of hours and rate of compensation for labor. Beyond this, the main estimate classifications are followed, as

Supplies and Material,
Contractual Services,
Fixed Charges, and
Equipment.

In Dayton, where executive authority is concentrated, it has been found an advantage to place the sub-classifications under these more general divisions upon the appropriation ledger, but provision is made for alteration at the order of the city manager. Thus the manager has control of modifications in the plans of departments, while that department is not restricted to the exact detail expressed in the estimates. This scheme works well in Dayton, and probably would in any city manager municipality, but is not to be recommended for the average city.

8. Appropriation Ordinance: A further step to successful budget making is the drafting and passing of an appropriation ordinance which will make effective the proposals of the budget makers. While the particular wording of the ordinance must vary according to local legal requirements, there are certain provisions which should be made binding upon the administrative officers of the municipality. Among them are these:

1. Every contract for the purchase of materials, supplies and equipment should require the signature of the city comptroller before it is valid. The estimated amount which will eventually become payable should be entered against the appropriation or fund account for which it is an encumbrance, provided that account has an unencumbered balance. If the account is already fully encumbered, the contract may not be signed.

2. No expense should be incurred by any department, board, or any other officer unless an appropriation has been previously made covering such expense, nor shall liability be incurred during any fiscal period in excess of the sum appropriated.

3. The salary schedules which were part of the original esti-

mates should be attached to and become part of each appropriation for personal services. The number of positions and salaries payable for each are thus fixed, and may not be increased except by action of the legislative body. Some administrative officers are of the opinion, however, that only the salary or other rate should be binding, leaving the number of employees to the discretion of the officer. This is equivalent to granting a lump sum to the officer for salaries and wages with specification of the rate of pay. Dayton employs the former plan, with reasonable success.

4. If the sub-classifications under the main classifications in the estimates are included in the budget, transfer of money from sub-classification to sub-classification within the same group should be permitted upon the request of the administrative officer. To do otherwise, would throw needless red tape around the operation of his department. However, there should be an absolute prohibition of the transfer of money from any appropriation—*i.e.*, main budget classification—to another appropriation, without action of the legislative body. In larger municipalities, notably New York, there is a prohibition on the transfer of money from any appropriation for personal service to any appropriation for other than personal service, and *vice versa*. This check is to prevent a department needlessly increasing its salary or wage roll after the publicity attending the passage of the original budget has passed. Such a provision, however, is not necessary nor desirable in smaller communities.

5. Some appropriation ordinances carry the provision that no more than one-twelfth of the appropriation for salaries shall be spent in one month, nor more than one fifty-second of the appropriation for wages shall be spent in any one week. A glance at the pay roll growth which formerly prevailed in New York and elsewhere immediately before election time indicates the necessity of such a regulation in some instances. It is a feature, however, which is highly undesirable in smaller places. It is an unnecessary restriction upon public officers, and prevents seasonal variation in work programs. It would serve its purpose only in instances where the budget allotments were made up for three months at a time. This latter suggestion has been seriously advanced, but not yet utilized.

6. All books of account, warrants, orders, vouchers, or other official reference to any appropriation should indicate the appropria-

tion and fund involved or to be drawn upon by the proper code number; and provision should be made that the city auditor or comptroller should exercise a keen supervision to insure that such code numbers are properly designated. One of the most difficult features of budget making is to enforce the drawing against proper appropriations after the budget has been made. There is an earnest temptation for an administrator when one appropriation is exhausted, to endeavor to draw upon another appropriation for purposes for which it was not intended.

9. Preliminary Publication: Before the budget is considered by the finance committee of the city council, it should be made available to the public in preliminary hearings. It has been aptly said that democracy in government is not as necessarily correlated with methods of representation as with the information which the public has concerning the acts or failures to act of its representatives. Since the city budget outlines nearly all of the city's activities, there has in the past ten years been a marked tendency to popularize the preparation of the city spending program, and make it a more effective instrument for securing results.

Probably in small cities funds would not be available, nor would public interest be sufficiently great, to justify the publication of the entire budget estimate prior to the budget itself. The main outline of the budget estimate can be given to the public press with a statement from the budget committee, indicating the general work program for the coming year, with such modifications as they have thought necessary. In addition, should be presented (1) an estimate of the income by sources compared with the income of several years previous; (2) expenditures by objects purchased, showing the money which it is proposed to spend for salaries, wages, supplies and materials, contractual services, etc., compared with the years previous; (3) expenditures by the different organization units or functional units where it has been thought advisable to divide the organization into functions, and with this should be given the statement of expenditures for several periods past; (4) if the space is available, these last two tables should be compiled jointly, indicating the expenditure for objects purchased for each organization unit.

All or part of these summaries will be gladly carried by the public press, and can be put in typewritten form for presentation

to such organizations or individuals as might be interested. The Dayton charter requires that all of the preliminary estimates, as well as these summaries, should be on deposit with the city clerk several days prior to the public hearing. The cost of printing the summaries, however, is very small, and any group of public officers concerned with interesting the citizen body in the city activities could well afford to have this data published and distributed. If such a course is pursued, and an effort made to stimulate the taxpayer's interest in how the tax dollar is being spent, the public hearings which precede the passage of the document will in most cases be well attended, and profitable to citizen and official alike. The knowledge that a few hundred or a few thousand people care what the city is doing will urge the conscientious official to a higher endeavor, and require of the careless one a desirable minimum of effectiveness.

It is equally desirable that the budget as finally passed by the city council be in printed form, not only that public employees may have ready access to the authorization to incur liabilities, but also that citizens may secure a definite statement of the city's public program. In a small city, this cost of publication would be very small indeed, and it is hardly justifiable in any municipality that the most important accomplishment of its administrative officers and its legislative body should be hidden away in the records of the city clerk, and not presented forcefully to the public.

10. Funds: It is quite common in municipal government that the city revenues do not come into one fund but are segregated for some half a dozen different purposes—one or two departments drawing from each fund. In this case, the method of budget making need be no different from that which has already been outlined. Instead of one estimate of revenues there must be an estimate for each fund. Instead of one estimate of expenditures there must be an estimate for the several departments which draw from each fund. In other words, instead of one budget, the budget committee must make from three to six different budgets, keeping each separate. This makes the drafting of the summary statements somewhat difficult, and complicates the situation, but this complication is more apparent than real.

Such funds are normally a handicap rather than a help to better government, and frequently cities have seen fit to disregard

laws requiring such segregation. There is seldom any taxpayer or public officer who is sufficiently interested in such separation of expenditures to bring the matter to the attention of the courts.

11. Additional Helps to Budget Making: In some of the larger cities much more information is given to the budget committee than has been specified in the preceding paragraphs. Nothing has been mentioned in the foregoing which is not available to interested officers of any city in this country. Municipal accounting has not progressed to a point where the average municipality may secure an accurate balance sheet, although that would be of assistance in formulating the city's financial program for the coming year. It is also frequently suggested that a city should have available, in addition to the balance sheet, a statement of the operating revenues and expenses over a series of years, a surplus account, debt statement, and fund statement. In simpler words, the budget makers should know previous years' expenditures by department and classification; the unexpended balance at the end of the year; bills outstanding against such; and a statement of the city's assets and liabilities. The most necessary of these facts (the first two named) could be secured with due diligence, and the others (the last two named) are not absolutely necessary for a long step in advance in municipal budget making. The detail of these features as applied to smaller municipalities is described in the article on budget procedure by Mr. Mandel, previously referred to.

12. The Allotment Scheme: It has been advanced by some budget authorities that appropriations should not be made for each function separately, but for objects of expenditure. At certain periods of the year, perhaps quarterly, allotments of these appropriations should be made to the several functional or appropriation units within the municipality. Such allotment should be made by the body responsible for the presentation of the original estimate to the legislative body. It is maintained that such a system would permit the meeting of needs not forseen at the beginning of the year, and would afford the flexibility which the segregated plan lacks. At the same time an adequate accounting and administrative control is secured. The proposal has been seriously considered for New York City, and was refused by the authorities in Springfield, Mass. In Dayton, as is possible in any city with centralized authority, most of the advantages outlined are secured through a

less formal budgetary control. The proposal will require empirical support before extended adoption may be considered, and most American cities have important preliminary steps yet to take.

13. Bond Budgets: Nothing has been said so far concerning bond budgets, as in the smaller municipalities it is in general unnecessary to consider this feature of city finance from a budgetary standpoint. However unwisely the permanent debt of municipalities has been incurred and liquidated, the fault will probably not be corrected through the budgetary medium. Only a small per cent of cities' operating income is expended for permanent improvements, and while it is desirable to make a division in the budget between operating expense and capital outlay, it would not be recommended that such capital outlay be carried by long term bonds. For example, in every municipality some work done on the streets, sewers, waterworks, fire alarm telegraph, etc., is of a permanent nature, and should be reflected on the city's general ledger as such. It would be foolhardy, however, that all such expenses be eliminated from the general operating expense to be taken care of by the sale of long term securities. Detail budgeting of bond issues has not come into use since such funds are usually spent by contract for specific purposes.

14. Municipal Reports: So far this article has dealt entirely with what may be called the debit side of city financing. There has been explained how in small municipalities city officers may be charged with a definite city program, and with the funds which the taxpayer has advanced for carrying out that program. Of equal importance are the methods by which the public officer becomes aware of the thoroughness with which his subordinates are carrying out the duties allotted to them; and the method by which such officer may report to the public the results of his stewardship. It is only by the developing and standardization of intra-departmental and departmental reports that such credit may be arrived at. Unfortunately, the development of such reports and accounts, particularly those dealing with unit costs have not proceeded to a point where they may play an important part either in budget making or in informing the public concerning the results of budget spending.

Municipal accounting and municipal reporting have not kept pace with budget making, and it is necessary to use the methods

outlined as an indispensable aid in effecting a more economical and effective use of the money resources of the municipality. The segregated budget is a necessary expedient until more perfect departmental administration is assured through the adoption and exercise of other methods.

Happily, these new methods are being rapidly introduced. The modern budget; modern accounting control over public funds; scientific purchasing of city supplies; time sheets and service records; cost accounting; adequate health records are not inherent to any type of government nor to any size of city; are not necessarily secured by a new charter; and may be established in any government if a sufficient number of citizens desire it.

THE PREPARATION OF ESTIMATES AND THE FORMULATION OF THE BUDGET—THE NEW YORK CITY METHOD

By Tilden Adamson,
Director, Bureau of Contract Supervision, City of New York.

Because of the peculiar problems in New York City, its budget and its budget making methods are more complex than would be necessary in the average American city. Nevertheless, some description of the New York method of securing estimates of departmental needs, formulating the budget, and checking expenditures should prove of value to other cities.

As an appropriation bill, the New York City budget for 1915 authorized the expenditure of $198,989,786.52. This amount, however, is only the so-called tax levy portion of the budget. In addition to this the budget provides a control over expenditures of millions of dollars other than funds raised by tax levy or by city revenue.

Up to a few years ago the budget comprehended only appropriations for current administration, operation, and maintenance. Today, it covers or controls all appropriations except bond issues for the development of the Catskill water supply and the building of the subway. Not all of these appropriations are actually made in the budget, but the original function of the budget has been expanded to give what is believed to be a necessary control over expenditures from corporate stock and special revenue bond funds. The expenses of administrative operation and maintenance are borne chiefly by funds appropriated in the budget and raised by tax levy. This is supplemented by city revenue from various sources and in cases of deficiency by special revenue bonds which are redeemed in the budget of the year succeeding the year of their issue. The expenses of constructing necessary improvements are borne by the proceeds of bonds known as corporate stock or by assessment upon the owners of property benefited by public improvements.

Until six or seven years ago no one thought of corporate stock funds and the tax levy budget as having any relation. This was a strange blindness on the part of city officials because even as early as 1909 the interest, redemption, and installment on the city debt amounted to $47,223,078.33. This amount had to be appropriated in the budget. By a singular oversight no one in authority seemed to regard it as necessary to place a restriction upon the issue of corporate stock or long term bonds. Their point of view was that a future generation would have to redeem the bonds. They overlooked the fact that every year they were adding millions to the budget in the form of interest and redemption. About 1910 the rapidly growing tax-budget compelled the attention of city officials. Since that time the lesson has been gradually learned that the annual tax appropriations cannot be controlled unless control is exercised also over expenditures from bond funds.

The segregated form of budget was largely responsible for directing attention to the grave danger from uncontrolled bond appropriations. A comparison between uncontrolled expenditures out of corporate stock and the controlled expenditures out of tax levy emphasized the necessity of a control over all funds.

The budget now in force has four chief purposes, as follows:

1. It determines and appropriates the amounts to be expended for each and all the various objects of governmental activity chargeable to tax levy.
2. It controls by schedules, terms and conditions the expenditure of funds other than tax levy.
3. It provides by segregation, by titles of appropriations, by terms and conditions and by schedules for the control of tax levy appropriations so that they will be expended economically for the necessary purpose of the appropriation.
4. It serves as a document of publicity by informing city officials, city employees and taxpayers of the amounts and the objects of the various appropriations and it charts in simple form the positions, titles, and salaries provided for each function of governmental activity.

The budget of New York City not only appropriates but guides the expenditure of the appropriations. Its scheduled form of detailed appropriation makes it well nigh impossible for department heads to misuse funds or to expend funds wastefully.

But the greatest improvement in budget making in this city in the last five years has not been in the form of the budget itself but chiefly in the methods of gathering facts to be used as a basis for budget making. Under the old method, department heads

would send in their estimates as required by law and just before October 31 there would be a more or less perfunctory examination. In no case was there a thorough inquiry made into the needs of a department. The result was that appropriations were not based on actual necessities.

During the last five years an attempt has been made to develop a budget system based on fundamental facts. Without facts as a basis no improvement can be made in administrative methods and no intelligent or effective control of municipal activities can be exercised by the board of estimate and apportionment which in New York is the controlling body. With this in mind we have attempted to gather facts and present them in such form that they can be applied with best effect to problems of the city government.

A full description of our machinery for gathering budget data would be lengthy. Departmental estimates are prepared on forms based on the theory that the main duty of the budget maker is to ascertain the amount of money that should be appropriated and not to ascertain, as was done in the old days, simply the amount that the department head wants to have appropriated. This is a very difficult task in a city with great departments, each with many and varied functions.

Our problem deals naturally with seven simple essential elements, as follows:

1. Work.
2. Workers.
3. Rate of pay.
4. Tools.
5. Supplies.
6. Materials.
7. Prices of tools, supplies, and materials.

The following elaboration and extension of these seven simple factors expresses perhaps more fully the chief things to be considered.

1. Number of units of work to be done.
2. Classes of employees necessary to do the work.
3. Number of units of work to be done by each class of employees.
4. Number of units of work the average employee of each class ought to perform in a day.
5. Number of days of work for each class of employee.
6. Rate of compensation for each class of employee.

7. The kind, quality, and quantity of supplies, materials, and equipment necessary for the performance of the work to be done.
8. Lowest market prices for all the kinds of supplies, materials, and equipment.
9. The best methods of performing the work.

An intelligent coördination of all these facts forms the soundest basis not only for budget appropriation, but for departmental administration.

The department head who knows the volume of work he has to do, the classes and the number of employees necessary, the proper rate of compensation, the kind and quantity of supplies, materials, and equipment and their lowest market prices, has a simple task. If we can give him these facts it will not be necessary to show him how to do the work. The labor involved in this apparently simple problem is tremendous. In addition to a study of the work performed by many thousand employees, there must be an investigation into all the needs of the various departments for funds to operate and maintain city property.

The first and most important fact we have to ascertain is the volume of work to be done. This cannot be determined in all cases upon departmental estimate forms but requires a detailed study by engineers and examiners. However, our forms are devised to obtain information showing the volume of work to be done whereever it can be conveniently expressed. We then try to express this work in standard units of measure and to classify it according to the nature of the thing to be done. For instance, on the forms for the "Maintenance of Highways" we endeavor to ascertain, among other things, the approximate number of square yards of sheet asphalt with a wearing surface of a given thickness that will have to be replaced in the coming year. On our "Forage" forms we ascertain the number of horses that will have to be fed in the coming year, the quantity of oats, the quantity of hay, and the quantity of straw and other supplies used, the unit cost of each kind of supply, and the daily per capita cost of feeding horses of each class or occupation. A careful classification is necessary, as, for instance, horses used in the fire department and working only occasionally do not require such heavy feeding as the big horses used in the street cleaning department which are usually overworked.

In the last few years there has been a determined effort to

supersede the present scheduled budget with a so-called cost data budget. The chief advantage that has been urged for the cost data budget is that it provides a work program. This form of budget is still being urged but not by anyone who has an intimate practical knowledge of the requirements of the budget. For four years an experimental cost data budget has been made for the Borough of Richmond. This budget has proved a failure and is to be abandoned next year at the request of the Borough President. A report, made September 25, shows an over-expenditure of almost 20 per cent in the highways appropriation in the Borough Richmond, in the first three quarters, leaving a deficit of the same amount in the last quarter. As there was no control in this cost data budget, the money that should have gone into road materials was to a large extent used for salaries, wages, and the unnecessary employment of teams.

The main weakness of the cost data budget is that it fails to control expenditures, and its work program is actually not so intelligent or comprehensive as the work program that forms the basis for a scheduled budget in New York City. Emphasis should be put upon the fact that the schedule budget is a work program cost data budget. A work program is essential as a foundation for any intelligent budget, but to this work program we apply cost data after determining what cost data are proper. The so called work program budget does not analyze cost data but accepts and applies the costs of this year as fixing the proper costs for the same things next year.

The unit cost of a thing done does not always represent the proper cost. In order to get the proper cost, it is necessary to obtain the unit price of the various elements of labor, supervision, supplies, material, and equipment, entering into the thing done. It is this necessity which governs the forms on which departmental estimates are prepared. An example of the weakness of the usual cost data is shown by the cost per square yard for certain paving work done by five different gangs under different foremen. I have in mind a single day's work for these gangs. The work to be done was identical yet the cost ranged from $1.11 per square yard to $1.89. This cost data was worthless on its face because it did not analyze the cost into the constituent elements. It accepted the compound unit cost as final. By going back of the unit cost per

square yard we find the reason for the difference in cost for doing the same thing under similar conditions. We base everything on elemental cost data. By this is meant the unit cost of each element that enters into the performance of a thing as, for instance, the laying of a square yard of asphalt pavement. The fact that it costs only $1.70 for laying a square yard of asphalt pavement is absolutely useless and misleading information unless we know all the facts entering into the cost of laying the pavement. An offhand summary of the various elements to be considered in comparing the cost of asphalt pavement is as follows:

1. Number of linear feet of old curb removed and cost of same.
2. Number of linear feet of new curb set.
3. Number of basins and heads adjusted and cost of same.
4. Character of surface to be stripped and cost of stripping.
5. Character and quantity of foundation to be stripped and cost of stripping.
6. The quantity and cost of adjusting to grade.
7. Cost of rolling of sub-grade.
8. The thickness of new foundation.
9. The proportions of concrete mixture used in the foundation.
10. The thickness of wearing surface.
11. The quality of asphalt.
12. The cost of asphalt.
13. The quality of asphaltic cement.
14. The cost of asphaltic cement.
15. The proportions of asphaltic mixture.
16. The cost of the broken stone.
17. The cost of sand.
18. The cost of cement.
19. The distance of transportation of material.
20. The cost of transportation.
21. The cost of heating materials.
22. The cost of labor.
23. The cost of supervision.
24. The extra cost of maintaining traffic without interruption.
25. The area of work done.
26. The conditions under which the work must be done.
27. The time limit for the completion of the work.
28. The cost of guarantee.
29. The character of traffic that the pavement will have to bear as a means of determining the cost of guarantee.
30. The local conditions affecting the performance of the work.

This looks like a formidable list but, even so, probably three or four elements of cost have been overlooked.

The fact is that one square yard of asphalt may be cheap at $2, while another square yard may be high priced at $1.

Another trouble with compound unit cost data is that it compares entirely dissimilar things with each other. For instance, I have seen comparisons between things as dissimilar as the following:

1. The cost of laying a square yard of asphalt pavement on a 6-inch foundation of the richest mixture of concrete with a 3-inch wearing surface of the best mixture and finest quality of asphaltic material laid under the most exacting conditions in a crowded section of the city where trolley and vehicular traffic must be maintained without interruption and where the work must be done in one-half the usual time.

2. The cost of laying a square yard of asphaltic pavement on a 3-inch foundation of the thinnest mixture of concrete with a wearing surface of less than 2 inches of poor asphalt materials laid under the most favorable conditions within a short distance of an asphalt plant with no vehicular traffic or trolley to be maintained or with no exacting time requirements.

This is just as bad as comparing the moon with a radish. The number of square yards to be done has a marked effect upon the unit cost per square yard and the conditions under which the work is done will have an even more marked effect. For instance, a contractor can lay 10,000 square yards of pavement straight away the full width of a street at a much lower price than he can lay 10,000 square yards of pavement on exactly the same street when he is compelled to pave one side of the street while keeping the other side open for traffic.

Moreover, it is essential to a fair comparison that the unit cost of compounds be analyzed into simple elements. If the Health Commissioner receives a report from hospitals showing that in each the daily per capita cost of feeding, treating, and caring for patients is $2.10, the very uniformity of the unit cost might convince him that $2.10 was the proper price. Suppose, however, that, instead of receiving the report of the compound unit cost, the commissioner receives a separate report showing the daily per capita cost of feeding patients, the quantity in pounds of food consumed, the quantity of each article of food consumed, and the cost of each separate element of supplies or service. He might find that in one hospital the cost of feeding patients was 45 cents per day per capita, whereas in another hospital caring for exactly the same class of patients, the price was only 19 cents per day. It might be found also on investigation of these reports that the patients fed for 19

cents per day were supplied with better and more nourishing food than the patients fed at the higher cost. The commissioner might then, by comparison of the elemental costs, find low prices for each element and by insisting upon this cost as the standard in all hospitals be able to cut the compound unit cost in half. This is not an entirely suppositious case.

The first year we used budget accounting forms on food supplies we found the daily per capita cost for food ranging from 8 cents up to $1.20. We found that patients or inmates who were being fed at 30 cents a day were receiving better food in some cases than inmates or employees whose daily per capita cost for food was several times as high. The result was the elimination of many luxuries and a vast saving to the taxpayers. I believe the Commissioner of Correction states that the inmates of institutions under her care are being fed better now on a 16 cent per capita basis than when the per capita cost was much higher. We would never have been able to accomplish any reform in the food supplies if we had not insisted upon getting the daily per capita consumption of all kinds of food. This form of budget accounting points a finger directly at strawberries in January or fresh asparagus at Christmas time. It also shows up the departmental employees when they take the choicest steaks for themselves and leave the poor meat for patients. The great amount of detailed information required on food supplies has been criticized but the tremendous results accomplished have more than justified the method. Not only has there been a very large saving annually but there is now an assurance that patients such as those who suffer from tuberculosis will receive plenty of the most nourishing foods whereas under the old conditions no one seemed to realize that there should be a distinction between the per capita cost of food consumed in a scarlet fever hospital and the per capita cost of food consumed in a tuberculosis hospital.

Going back to the seven simple elemental factors to be considered in budget making, I will use as an example the Otisville Sanatorium, an institution for the care of tuberculosis patients. Our departmental estimate forms show the number of patients to be treated, the number of horses to be fed and the repairs, replacements and other work necessary for the maintenance of the institution. With this as a basis for the work program we determine the number

of workers, that is, the number of nurses, physicians, internes, hospital helpers, drivers, foremen, carpenters and other employees necessary to make the work program effective.

The determination of the number of workers necessary is based upon the volume of work to be done and the number of units of work the average employee of each class ought to perform in a day. With these facts we can determine the number of days' work for each class of employees. The rate of compensation for each class and grade of employees is the next step. In determining this rate we apply standard work specifications which form a part of the general program of the standardization of salaries and grades.

Tools or equipment must be considered in connection with the volume of work and the number of the workers. Our departmental estimates do not permit departments to request simply a lump sum for equipment but require a detailed statement of each kind of equipment. The request is always considered in its relation to the number of workers. The departmental estimate forms provide against waste and over-stocking by a system of inventory and a statement of stock on hand.

The question of the quantity of supplies for the ensuing year depends absolutely upon the work program. For instance, the quantity of food supplies depends upon the number of persons to be fed, the quantity of motor vehicle supplies depends upon the number of automobiles or the mileage, and the quantity of forage supplies depends upon the number of horses and the class of horses to be fed.

Experience has taught us that we cannot make a lump sum appropriation for supplies. Patients used to go hungry in hospitals because money that had been appropriated for food supplies under a general heading of "Supplies and Materials" was actually spent to buy Persian rugs and automobiles. We have found it necessary to control such expenditures by classifying the various forms of supplies and making appropriations as follows:

Food Supplies.
Forage and Veterinary Supplies.
Fuel Supplies.
Office Supplies.
Medical and Surgical Supplies.
Laundry, Cleaning and Disinfecting Supplies.
Refrigerating Supplies.
Educational and Recreational Supplies.

Botanical and Agricultural Supplies.
Motor Vehicle Supplies.
General Plant Supplies.

This sub-classification serves not only to control the expenditure of appropriations but makes it easier to analyze departmental requests. There is a form of departmental estimate for each class of supplies and a complete statement with supporting data must be made with every request.

The same principle of subclassification is applied to materials which have been classified as follows:

Highway Materials.
Sewer Materials.
Building Materials.
General Plant Materials.

This insures that materials appropriated for the repair of highways will be used for that purpose instead of being diverted to materials for laying parquet floors in the offices of commissioners or for other purposes that are not necessary.

In like manner it has been found necessary to subdivide the grand division of equipment into nine subdivisions as follows:

Office Equipment.
Household Equipment.
Medical and Surgical Equipment.
Live Stock.
Motorless Vehicles and Equipment.
Motor Vehicles and Equipment.
Wearing Apparel.
Educational and Recreational Equipment.
General Plant Equipment.

The desirability of separating appropriations for equipment into these subdivisions may be illustrated by the fact that money appropriated for hospital "equipment" and intended for operating tables has been used to buy pianos and billiard tables for persons connected with the hospital.

Formerly there was no distinction in the budget between supplies, equipment and materials. In order to make the budget classifications susceptible of practical application it was necessary to make arbitrary definitions. These definitions and the classifications were intended to compel all articles to fall naturally into their proper places. The definitions are as follows:

Supplies: Supplies are articles which can be used but once, or which, after being used once, show a material change in or an appreciable impairment of their physical condition.

Equipment: Equipment includes all apparatus, machinery, vehicles, tools, instruments, furniture, fittings and other articles which can be used over and over again without a material change in or an appreciable impairment of their physical condition.

Materials: Materials are articles and substances in a natural or manufactured state entering into the construction or repair of any building, highway, sewer, apparatus, machinery or other equipment.

The importance of the distinctions is illustrated forcibly in our budget work. The fact that a power plant used 10,000 tons of coal in 365 days of one year indicates that unless there has been some change in conditions, the same quantity of fuel supplies will be required in the following year. This is true of practically all supplies while the reverse is true of equipment. When the departmental estimate forms show that 800 beds were purchased last year for a hospital with an 800 bed capacity, that on its face shows the Budget Committee that there should be no need for the purchase of 800 beds the next year. The failure to make these distinctions in the past was responsible for inflated appropriations that were wasted.

In addition to the several classifications already mentioned we have special departmental estimate forms for the Contract or Open Order Service, as follows:

General Repairs.
Motor Vehicle Repairs.
Light, Heat and Power.
Janitorial Service.
Transportation.
Communication.
General Plant Service.
Lighting Streets and Parks.
Lighting Public Buildings.
Power.
Heat.
Hire of Horses and Vehicles with Drivers.
Hire of Horses and Vehicles without Drivers.
Storage of Motorless Vehicles.
Storage of Motor Vehicles.
Shoeing and Boarding Horses, including Veterinary Service.
Hire of Automobiles.
Carfare.

Expressage and Deliveries.
Telephone.
Telegraph, Cable and Messenger Service.
Contingencies.

Another advantage of the detailed accounting required on the departmental estimate forms is that it shows up departmental sore fingers prominently. When this system of budget accounting was first installed, the head of a certain department was amazed to find that one division in his department was buying kerosene oil at 7½ cents a gallon while another division was buying kerosene oil by the pound at a price of 28 cents. This same department found that one division was paying three or four times as much as other divisions for its engine oils.

The first year of the operation of these forms a certain big department filled out its estimates on the old fashioned basis. The department was required to analyze its request in accordance with the new form. This analysis resulted in showing that the department had deliberately padded its requests by 50 per cent in some divisions and by 25 per cent in others. The required analysis as made by the department itself showed requests for 2½ bicycles, 12½ thermometers, and 1½ wheelbarrows. The very absurdity of these requests served to establish firmly the new system of making departmental estimates. Since that time as a result of these methods the budget of this same department has been reduced almost two million dollars notwithstanding a very large growth in the main functions of the department.

The results to be obtained from a thorough and scientific system of budget making are illustrated by the fact that in making the 1915 budget a comparatively small group of men engaged upon only thirteen of the one hundred and twenty departments and offices reduced the aggregate budget of these thirteen departments approximately $4,000,000 below the 1914 schedule. One of these thirteen departments had in 1914 a budget of approximately $4,000,000. By a thorough study and reorganization of this department and by the application of proper methods of work performance we were able to reduce the budget for 1915 by about one and one half million dollars. The commissioner of the department in question insisted that this would ruin his department. The form of departmental estimate used and the method of investigation followed showed so

convincingly the vast waste in this department that despite the very radical recommendations and despite the commissioner's protest, the budget was cut almost in half. Instead of ruining the department there was an actual improvement. The department has done better work this year than for many years in the past and the commissioner himself has requested for 1916 less than half the 1914 appropriation.

Another instance of the New York method of making the budget is given by the appropriation for lighting public streets and public buildings. Year after year it has been necessary to authorize revenue bonds to meet deficits in the lighting appropriation. This appropriation had increased from year to year until it was approximately $5,000,000 in 1914. We made a physical examination of lighting conditions and investigated the size, character and location of every street light in the city. The result was a saving of almost $700,000 in the budget for 1915 and an increase of almost 20 per cent in illumination. This was done largely by replacing old fashioned gas lamps and costly arc lights with improved nitrogen and tungsten lights. This year the same methods are expected to reduce the budget for lighting by approximately $300,000 or a total reduction of about $1,000,000 in two years.

The greatest difficulty with which we have had to contend has been the general belief that the head of a department knows more about this department than budget examiners. After several years of repeated proof that intelligent and expert examiners who have given close and detailed study to conditions had a better knowledge than commissioners who rarely understand the detail working of their departments, we have at last succeeded in having the budget considered on the basis of facts rather than on that of the opinions of department heads. In preparing the budget we try to introduce in all departments methods that have demonstrated their superiority. One advantage that a centralized force of examiners has over department representatives is that they are in a position to witness the activities of all departments, to contrast the good with the bad and to make profitable use of the mistakes of one department and the high accomplishments of another.

The departmental estimate forms are so devised that current comparisons can be made between departments and between divisions of departments, and the best methods selected. The depart-

mental estimates themselves form what might be considered a negligible part of the work of budget making. With the departmental estimates as a working basis it is necessary for the examiners and engineers to make a very close study of the organization and the work of the departments. This requires considerable tact. We keep in mind always that the departmental engineer who has been building sewers for twenty five years knows the duties of his position probably as well as we know our own but we endeavor tactfully to show him that there are other engineers building sewers and repairing highways with better results at less cost.

The departmental estimates are prepared usually by clerks of the various divisions. These clerks use as a basis for their request the estimates given them by heads of bureaus, heads of divisions, engineers, foremen, and others. The experience data are taken from the records of the department.

Estimates are required by law to be submitted to the Board of Estimate and Apportionment on or before September 10. The final budget must be made on or before October 31. There is such a short time between September 10 and October 31 that it would not be possible to gather all the essential facts to prepare recommendations, hold hearings and print the budget in that time. Accordingly it is necessary to make the budget work continuous throughout the year. Examiners and engineers are already familiar with conditions in departments when the estimates are received. They proceed immediately to apply their knowledge of conditions and to analyze the requests. Usually the examiners go over every item with representatives of the departments and then write in their recommendations in the proper column on the estimate forms.

After the estimates have been analyzed, recommendations are made and a summary placed upon forms known as "committee sheets." These committee sheets carry complete comparative data concerning every account to be considered. On these sheets reasons are given for the various recommendations.

Hearings on the budget are held and the committee sheets are given to the members of the Budget Committee to assist them in a better and quicker understanding of the recommendations than otherwise would be possible. The argument of the department representatives is heard and in cases of disagreement the facts are discussed thoroughly by the committee. After the completion of

committee hearings on all departments a tentative budget is printed and a public hearing held to consider this tentative budget as a whole. Representatives of the various civic associations, taxpayers' associations and others usually appear and argue for and against certain appropriations. If the arguments at the public hearings convince the members of the board of estimate and apportionment that the tentative budget should be changed in any particular the change is made, and, then, after a very careful checking as to the accuracy of the budget, it is adopted and signed on October 31.

BUDGET MAKING IN CLEVELAND

By Mayo Fesler,

Secretary of the Civic League of Cleveland.

In the city charter of Cleveland adopted in 1912, all financial administration is consolidated in one department. Under the director of finance are brought together the formerly separate and independent departments of auditor, treasurer, assessments and purchases. He is given authority to prescribe the methods of keeping accounts in all departments and controls the form of financial reports to be rendered by each. He appoints all bookkeepers and other employees charged with keeping books of account in all departments. He is made responsible for the proper custody of public moneys and is required to see that all expenditures are kept within the appropriation. He prepares the blanks on which the heads of the several departments submit to the Mayor their detailed requests of each year's expenses.

The Mayor's Estimate

While the charter requires the Mayor to prepare and submit to the council the mayor's estimate covering the estimated expenses of all departments and divisions of the city government for the year, in practice the director of finance prepares this estimate. There are, of course, frequent conferences with the Mayor and heads of departments, but the estimate is essentially the work of the director of finance.

The mayor's estimate, according to the charter, must contain:

(a) An itemized estimate of the expenses of conducting each department.

(b) Comparison of such estimate with the corresponding items of expenditure of the last two years.

(c) Reasons for all proposed increases or decreases.

(d) A separate schedule showing the things which each department must do during the year and things which it would be desirable to do if possible.

(e) Items of pay roll increase as either additional pay to present employees, or pay for more employees.

(f) A statement from the director of finance of the total probable income of the city from all sources.

(g) The amount required to meet the interest on city debt and for sinking fund purposes.

(h) The total amount of outstanding debt with a schedule of maturity of bond issues.

This estimate must go to the council by the middle of November. The council is then required by the charter to prepare "at once" the appropriation ordinance based upon the mayor's estimates. This ordinance is printed for general distribution and public hearings must be held. These hearings may be before the regular appropriations committee or before the council sitting as a committee of the whole. The report of the committee which is in effect the second reading of the ordinance, must be printed in the city record with a separate schedule setting forth the items asked for in the mayor's estimate and refused or changed by the council, and the reasons for each such refusal or change. The council is prohibited from passing the ordinance until fifteen days after its publication or before the first Monday in January.

Under the charter, the council has full power to increase, decrease, reapportion or reject items in the mayor's estimate. There is nothing in the charter which compels them to follow closely the mayor's estimate. The only specific limitation on the council in this respect is that in the preparation of the appropriation ordinance, the council shall "use the mayor's estimate as a basis." The council can depart as far as they please from these estimates and recommendations, both in items and amounts.

It will be seen that, in the main, the charter provisions prescribe a well devised plan for modern budget procedure. It enables the mayor of the city to get before the council a clear and concise statement of the year's transactions; a complete and accurate statement of the present financial condition of the city, and a definite and orderly outline of the work to be undertaken during the next fiscal year. It enables him also to present to the public an understandable picture of the city's problems and activities. As a plan of budget procedure, it is fairly complete. The question is: How is the plan working in actual practice?

In answering this question, it is necessary to keep in mind one of the broad general principles established in the Cleveland charter. The charter attempts to make a clear cut division between legislative and administrative functions. Upon the council, of course, is

conferred all legislative powers; but it is strictly limited to legislative duties and is specifically prohibited from interfering with the administrative departments in any way, especially in the matter of appointments and the fixing of salaries, except the salaries of its own members and those of heads of departments. The fixing of salaries is an administrative duty which is specifically conferred upon the Board of Control, consisting of the mayor and the heads of departments.

Early in October of each year, the director of finance sends to the heads of the several departments the regular form blanks with the request that they prepare their estimates on these forms. The blanks are accompanied by a standard code of classification prepared by the finance department, and the several departments are requested to prepare their estimates on the basis of the classification. This insures uniformity of budget requests. These departmental estimates must be in the hands of the director of finance by November 1, when he proceeds with the preparation of the mayor's estimate.

The arrangement of the items in the mayor's estimate by the director of finance has led to a direct violation of the charter provisions. The charter distinctly provides that the board of control shall fix the salaries and compensation of all officers and employees, and the sections covering budgetary procedure purposely omit any suggestion which might give the council authority to fix in the appropriation ordinance the salaries of any officer or employee, except heads of departments and members of the division of police and fire. Yet the council committee in the public hearings on the appropriation ordinance has not only fixed definite salaries, but has considered the supposed efficiency or inefficiency of men in the administrative service. The director of finance is, in the main, responsible for this violation. Instead of following the directions laid down in the city charter, and arranging his code classification so that all appropriations for personal service would be made not in items but in lump sums, he provided in his classification of expenditures not only for the itemization in many cases of salaries under the heading "Supervision," but gave such salary items a number. This makes each such item a specific appropriation which the board of control has no power to increase, decrease or reapportion without authority of council.

At the public hearings in January before the appropriations committee, councilmen who have not yet given up the practice of seeking to control the administration indirectly, tried to enforce their views by attacking certain of the supervision items. For example, when the question of the appropriations for the division of smoke abatement was under consideration, the chairman of the appropriations committee declared that the chief smoke inspector was not only inefficient, but that he was actually persecuting some of the councilman's constituents in an outlying ward, and for that reason he favored revising the salary item of the chief smoke inspector. The discussion continued for some time, and finally the mayor was compelled to appear before the committee to defend not only the salary item but to make clear to the committee that in his opinion the chief smoke inspector was an efficient officer and was enforcing properly the smoke abatement ordinances. This absurd procedure, of course, was wholly contrary to the clear intentions of the city charter, but the councilman gained his point, the appropriation was greatly reduced and, as a result, the chief smoke inspector resigned his position.

The same course was pursued in the division of public recreation, but the commissioner accepted the reduction and the council failed to secure his resignation.

The disposition of the council committee to meddle with the salaries of individual employees finally became so serious that the mayor asked for a joint meeting of the committee and the board of control in order to arrive at some working basis. The director of law and the mayor at this meeting explained fully the requirements of the city charter and the intention to take from the council the authority to fix salaries, but the director of finance expressed his disapproval of the plan laid down by the city charter, and urged that the appropriation ordinance be framed according to the plans laid down originally in the mayor's estimate. The conference ended without any change being made, the appropriation ordinance was passed in its original form, and thus by the mere arrangement of the items in the mayor's estimate, the council has used the appropriation ordinance as a cloak for interfering with the administration by fixing salaries, although specifically prohibited by the charter. The fixing of salaries in the appropriation ordinance is not only contrary to the charter, but is contrary to the best practices in

budget making. It takes away from the administrative officer discretion and responsibility, reduces him to a position of dependence upon the council, and leaves the salary items so inflexible that changes which will tend to promote economy and efficiency in the administration cannot be made except by ordinance. The council must, of course, exercise the power of finally determining the amount of money available for the various divisions, but no legislative body can, in the hurry of passing the appropriation ordinance, anticipate all of the conditions which are likely to arise in the actual expenditure of the money. For that reason, the salary items should be in lump sum and not in detail. The schedule should, of course, contain all of the detailed information necessary to give the council a clear conception of the objects of the appropriations, but these need not be a part of the salary items in the appropriation ordinance.

The city has been in unusually straitened financial circumstances since the new charter was adopted, and the chief concern, both of the mayor and the city council, has been to keep the appropriations within the estimated income. The mayor's estimate cuts off a million or more from the departmental estimates, and then the council is forced either to reduce the estimate another million in the appropriation measure or to resort to short time loans. In spite of this pruning, the city's expenditures have exceeded its income by $1,500,000 in the last two years.

It has been suggested that the charter be amended so as to limit the authority of the council in appropriations to the power to decrease but not to increase or otherwise change the items in the appropriation bill. This, of course, would prevent administrative interference or meddling with salaries, but it would so reduce the function of the council as to make it a governmental body of small importance. Moreover, the duty of making appropriations is essentially a function of the legislative body and belongs to the council. This is especially true in a form of government such as has been adopted in Cleveland, where the policy-determining function has been so fully divorced from the administrative.

The public hearings attending the preparation of the appropriation ordinance are especially illuminating. Each department presents its own needs. The director and his commissioners appear and explain in details the items in the departmental requests and compare the proposed expenditures with the preceding year's

expenditures and activities. A clear and convincing argument must be presented in order to avoid a cut by the committee. The only defect in these public hearings is the absence of an active and vigorous minority on the committee, intent upon probing deeply into the expenditures; but that is not the fault of the system.

On the whole, the budget procedure outlined in the Cleveland charter has worked out satisfactorily in practice with the one exception noted above.

BUDGET MAKING IN CHICAGO

By Charles E. Merriam,

Professor of Political Science, University of Chicago; Member of Chicago City Council.

Appropriations for public expenditure in the city of Chicago are made by the city council with the approval of the mayor. The mayor has also a veto power over specific items contained in the appropriation bills. This veto may be overidden by a two-thirds vote. Furthermore, the statute requires that the annual appropriation bill shall be passed during the first quarter of the fiscal year. Preliminary estimates of departmental needs for the ensuing year are presented to the controller on blanks prepared and sent out by him for this purpose. These estimates are received by the comptroller, revised and transmitted by him to the finance committee of the council. This body is composed of fifteen members appointed by the council itself. The chairman receives a salary of five thousand dollars a year and devotes the greater part of his time to the duties of this office. The finance committee, after a series of sessions covering ordinarily a period of about two months, recommends a budget to the entire council. During this period, hearings are held at which heads of departments, bureaus, city employees and interested citizens appear and present arguments. The budget transmitted to the council by the finance committee is considered by the council in committee of the whole and then by the council in regular session. In recent years the budget has been passed practically as recommended by the finance committee, although some additions are usually made by log-rolling methods. And in the last two years, budget increases have been made following the veto of the mayor upon items which he regarded as insufficient for departmental purposes. In the main, however, the budget passed is substantially the budget of the finance committee. In 1911 a log-rolling campaign increased the committee's budget by nearly two million dollars, but on the final vote, the overloaded budget failed to secure the necessary number of votes for passage, and consequently the whole budget was re-referred to the

finance committee and subsequently passed substantially as it was when originally introduced. In 1915 the budget was increased about $100,000 as a result of various successive motions on the part of different aldermen, but after two days of this procedure, a motion was made to eliminate all such increases and this was carried by a decisive majority.

In 1910 the segregated budget system was adopted by the finance committee of the city council as the result of a recommendation made by the Commission on City Expenditures. The organization of this system and its installation were under direction of Mr. Herbert R. Sands, who was employed by the commission for that purpose. Prior to this time there had been a budget very inadequately subdivided under certain broad general heads. For example, although salaries were set out separately in most instances, they were frequently grouped in large sums. The same thing was true of the amounts allowed for the purpose of supplies and equipment. The following two items will illustrate the old system.

For the bureau of streets, the sum of $2,017,540 was appropriated under the following title:

> For the removal and disposition of garbage, street and alley cleaning, repair of improved and unimproved streets, sidewalk repairs. Salaries of yard men to be $75.00 per month and the wages of laborers $2.00 per day. Expenses of repairing improved and unimproved streets to be paid from the wheel taxes.

Again, in the police department $205,000 was appropriated in the 1909 budget under the following title:

> For repairs and renewals of wagons and harness, replacement and lifestock, police telegraph expense, rents, renewals repairs equipment hospital service, printing and stationery, secret service, light and heat, twenty-five more horses and equipment for mounted police and for repair Hyde Park station, also for other miscellaneous expense.

The new budget plan provided for a detailed segregation of items previously grouped together. Instead of a lump sum of $2,000,000 for the bureau of streets, under the new budget system was classified as follows:

1. Ward supervision other than salaries. (Amount allowed each ward set up separately.)
2. Cleaning streets and alleys.
   - *a*. Wages.
   - *b*. Hire teams, horses and carts.
   - *c*. General supplies.

3. Removal of garbage, ashes and refuse.
   a. Wages.
   b. Hire teams, horses and carts.
   c. General supplies.
4. Repairing sidewalks. (Street labor charged to another account.)
   a. Wages.
   b. Hire teams, horses and carts. (Amount allowed each ward set up separately.)
   c. Material for repairs and replacements by departmental repair.

This scheme has subsequently been modified in some particulars as a result of practical experience.

Furthermore a code number was given each separate account, leaving in the hands of the controller the power to make necessary changes in such code numbers. Accounts were set up in the controller's office with corresponding code numbers, thus making it impossible to exceed the amount authorized by the appropriation bill. In this way, it was made possible for the controller to keep an effective check over the particular appropriations. The 1915 budget provides, for example, (section three)

> That the comptroller and the heads of the other departments and bureaus and offices of the city government shall administer the amounts appropriated in this bill by standard accounts as specified by the account numbers; designations of which may be amended or altered by the city controller to suit the needs of the particular classification and grading in the financial manual of the department of finance, in which is specified details of commodities, service, benefits and claims chargeable to such standard accounts respectively. And they are hereby prohibited from incurring any liabilities against any account in excess of the amount herein authorized for such account, and from changing any wage item, salary herein, and from incurring any liability which will necessitate a transfer from any appropriations for salaries or wages in their respective departments.

Practical experience has shown the need of modifying this system in some particulars, but in the main, the segregated budget plan of 1910 remains in operation.

One of the first difficulties in any budget system arises from the need of securing a greater flexibility in expenditures. Transfers from one account to another may easily undo the entire intent and purpose of a carefully itemized budget. The original system contemplated such transfers and provided that they could be made upon the recommendation of the comptroller through the finance committee on the approval of the council. In actual practice, however, considerable difficulty is found in effectively checking demands

for transfers of funds. If a particular bureau or department desires to conceal a juggling of the funds, it is at times very difficult to detect the real purpose. The amounts of these transfers are considerable and cover important operations. During the year 1914 they aggregated $1,002,844. These items are of course scrutinized by the comptroller and by the chairman of the finance committee and approved by the council.

One of the practical difficulties of budget making in Chicago is the formation of an appropriation bill which will not exceed the estimated revenue of the city. It has been the custom for a number of years to appropriate all the probable receipts of the city from taxation, licenses and all other sources, and then to exceed this by a considerable amount. In the year 1914 the amount of over appropriation was $3,178,644. In 1915 there was an over appropriation of $2,740,765. This means of course that two million contained in the appropriation bill will not actually be expended unless the city draws upon some surplus existing at the beginning of the year available for that purpose. Some of the items appropriated that will not be expended during the year are very clearly evident, as for example, the formal appropriation for a bridge which undoubtedly will not be completed during the year. In most instances, however, it is not at all clear which items are to be expended and which are to remain paper items. There is what is called "hot air" in the appropriation, but it is never possible to localize it at the time the budget is passed. The effect of this over-appropriation is vicious, since every department head or bureau head knows that there is insufficient money to meet the amounts appropriated, and there ensues inevitable competition between the departments. Those expending their money early are sure of their appropriation allowance. Those who are frugal and saving may discover at the end of the year or towards the close of the year that the amount they have saved has been expended by others. In other words, a premium is put upon hasty action and extravagance on the part of the departments. It is literally true in dealing with over-appropriated budgets that the early bird gets the worm. Those who survive are not the most frugal, but those who are most liberal in anticipating their needs. Of course, the controller's office can and does to some extent check this tendency, otherwise the retreat would become a rout. This check is by no means effective, how-

ever, and leaves much to be desired in the way of public economy. It has been proposed that some limitation be placed upon the amount that is to be expended by a given bureau during any one month or during a quarter of the year, and it is probable some change will be made within a short time. The practical difficulty with this plan lies in the seasonal nature of much of the work of the municipality and the difficulty of accurately forecasting the seasonal needs of all such municipal agencies.

The state statute requires that each municipality in Illinois shall pass an annual appropriation bill during the first quarter of the fiscal year. The practice has been in Chicago to pass the budget late in January or early in February. In 1915, the budget was passed on February 8. However, numerous supplemental appropriations are made. During the year 1914 these amount to $500,000. These have been justified partly on the ground that they were emergencies and partly on the ground that the law applies only to the appropriation of revenues obtained from taxation and not receipts from licenses, fees, interests, rents and other sources. In 1915 the city treasurer refused to honor warrants based upon these supplemental appropriations and suit has been brought in court to determine the intent of the state law. The lower court has rendered a decision that favors the practice adopted by the city for the many years, that is, of making supplemental appropriations where necessary in the judgment of the city council. If such supplemental appropriations were not permissible, it would be necessary either for the city to make unusually liberal appropriations for specific departments in order to cover possible needs during the year, or to provide a large contingent fund which might be drawn upon from time to time.

In Chicago during the last five years the chief impulse towards economy in appropriation has come from the city council. Singularly enough, the council has taken more interest in administrative efficiency and economy than the administration itself. It has been necessary for the council to investigate the expenditures of various departments and recommend administrative changes, and further for the council to oppose attempts on the mayor's part to increase the annual appropriation. This has made the task of the finance committee doubly great. The various departments undertook to escape what they call the iron rule of the finance committee

and increase their appropriations. As the chairman of the finance committee said one day, a department head asserted to him "I will slip it over on you anyway. If I can't get the money this way, I will find out another way." This is not true of course of all, or perhaps a majority of the departments. In some instances there has been close coöperation between the departments and the appropriating body.

The mayor of Chicago, although not a member of the finance committee, has from time to time been in attendance upon the meetings of the finance committee. This was not done by Mayor Dunne or Mayor Busse, but has always been the practice of Mayor Harrison. His presence in the committee room tended to increase appropriations rather than bring them down. Furthermore, the mayor's vetoes of budget items were made not because they were excessive, but because in his judgment, they were inadequate. In 1914 the mayor increased the budget $250,000, of which, however, only one hundred thousand was allowed. Ordinarily the executives have endeavored to restrain the extravagant tendencies of the council and this has lead in numerous cases to the removal of the appropriating power from the council altogether. In Chicago, however, the council retains in full its original function of an appropriating body, namely, checking demands for expenditure made by the crown,—in this case, by the executive. I remember a few years ago in a budget making debate, an occasion when one of the aldermen suggested that certain items should be passed, because, as he said, you can put those items up to the mayor and he will veto such of them as he considers excessive, if the city's finances will not warrant them. I took the position that the power to make appropriations and supervise them is a function which the city council could not possibly delegate, but which they must most vigorously protect; and in this I was sustained by a large majority of the aldermen.

For many years the council felt the need of expert assistance in making the budget. In 1910 Mr. Sands aided in installing the segregated budget system and in subsequent years, different members of the efficiency division of the Civil Service Commission were helpful in sifting budget items. The finance committee felt, however, that more permanent assistance was necessary and, consequently, recommended last July an ordinance creating a board of standards and apportionment, which was passed by the city council

but has been vetoed by the mayor. This board was to consist of the chairman of the finance committee, the controller and three members of the finance committee selected by that body. The duties of the board would be to sift out the preliminary estimates of the departments and prepare a tentative budget for submission to the finance committee, and after the budget was passed, to supervise appropriations. It would be their duty to make such investigations or inquiries as were necessary for checking expenditures and to make constructive recommendations to the committee for the promotion of economy and efficiency in the use of public funds. There has been much discussion as to whether such an organization would be placed under the civil service commission, under the controller, or under the finance committee. There is probably no exclusive answer to this question, but in Chicago where the impulse to economy and efficiency comes from the council, the need of such a body immediately responsible to the representatives of the people is plain.

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